

JPRS-CAR-93-013  
23 February 1993



# ***JPRS Report***

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## **China**

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### **Intellectual Circles Say Democracy Inevitable**

93CM0154A Hong Kong TANG TAI  
[CONTEMPORARY] in Chinese No 21, 15 Dec 92  
pp 37-39

[Article by Jen Min-ta (0117 2404 6671): "What Do Intellectual Circles Demand of the New Order"]

[Text] Editor's note: Recently, this magazine held a discussion meeting in Beijing and invited a number of middle-aged and younger faculty members, graduate and undergraduate students from a certain university to discuss and evaluate ideological changes in the CPC. Their comments are summarized below for reference to our readers. [end editor's note]

### **No Turning Back on the Road to Market Economy**

The speakers generally recognized that there is no turning back when China's economy turned from a planned economy toward a market economy. After the 4 June incident, the faction advocating a "bird-cage economy" hoped to reverse the train of history and return to the pre-reform economy, but they controlled only partially the upper-level decision-making, and what they in fact manipulated were only the ideological propaganda tools. Their real influence was limited, and they could not turn around the economic liberalization (marketization) trend spearheaded by enterprises operated by villages, towns, and foreign capital especially in the open zones along the coastal area. In the competition, the state-owned large- and medium-sized enterprises, heretofore considered by this faction to be the lifeline of socialism, have been losing money repeatedly and going into an irreversible decline; this adversely affected the credibility of this faction which found itself in a quandary. Now Deng Xiaoping is a smart man, and he could sense the serious crisis confronting the Chinese economy, a crisis that could only be dealt with by economic liberalization. The socialist market economy concept he put forth was therefore a wise move.

### **Changes Brought About by the 14th CPC Congress**

The 14th CPC Congress was an important historical turning point for it set aside the ideological argument over whether to call the economic system "socialism" or "capitalism" but proceeded to bring about the following changes:

**The party and government will be changing and adjusting their functions at various levels to accommodate market demands.** This is concretely illustrated when the party and government rank and file, in the name of rationalizing governmental functions, use their considerable power, resources and network of contacts to quickly seize positions of advantage in the market. This can also be seen when the Central Government's departments all rush to privatize and enter the market by establishing companies. This kind of merging of "officialdom" and "commerce" will undoubtedly promote monopolistic tendencies, cause abnormal developments or obstruct

the free information flow in the market, and lead to irrational distribution in and ineffective use of resources.

**Social inequities will be exacerbated, resulting in the lower classes in society becoming poorer.** When the people are thrown into market competition without adequate political and economic safeguards, the bipolarization in society cannot be avoided.

**The break-up and even disintegration in the intellectual circles will intensify.** Under attack by the waves of commercialism, knowledge per se will be further devalued, and many intellectuals who are engaged in basic research or in studies of the humanities will be neglected or rejected. Many young intellectuals have jumped from the halls of academe into the sea of commerce. Many regular academic institutions found that to survive they have to sacrifice their normal curriculum of teaching and research and engage in commercial activities even though these are not particularly prestigious or advantageous.

**Political controls by the authorities will be strengthened.** In the near term, there may be a lessening of emphasis on ideology, but to control the political liberalization and freedom of thoughts which inevitably follow economic liberalization, and to ensure "stability" in society, the authorities will undoubtedly strengthen political controls. Having let the economy out of the "bird cage," the authorities will certainly not allow politics to follow suit.

The above-mentioned several points indicate that predicting the post-14th CPC Congress political changes in China will be difficult indeed. Various social contradictions are now rapidly surfacing, and economic and political frictions will be impossible to avoid.

### **Neoconservatism—Reformism?**

Faced with the present situation in China, the neoconservatives in the intellectual circles have again come to the fore. While neoconservatism evolved from the new authoritarianism before the 4 June incident, the neoconservatism today is different in certain basic respects. After the 4 June incident, the mainstream conservative forces in the political, economic and ideological circles were consolidated, and serious rectification and suppression were carried out against the opposition democratic forces and reformist forces of the enlightened faction; the political reform the masses looked forward to remained but a dream.

The economic sanctions and political pressures of the last three years have produced a defeatist attitude and readiness to compromise among the people especially the intellectual circles, who have become inclined to put their hope in the Communist Party to carry out enlightened reforms. Neoconservatism today is the product of this type of sentiment. At this point, China's intellectual circles hold different points of view toward this neoconservative trend, and these viewpoints were also reflected in the discussion meeting.



One representative viewpoint argued that the high degree of concentration of political authority coexisting with the considerable leeway given to the economy reflects the lack of a democratic tradition in China, and is due to the fact that a majority of urban residents but especially the peasants in China traditionally "opposed only the corrupt officials, but not the emperor," and who did not have any of the Western type of democratic demands. Because the democratic demands of the 4 June demonstrators were not fully understood or supported by the masses, it was argued that the suppression of 4 June demonstrators was evidence that whether in the past, at present or in the foreseeable future, China does not have and cannot possibly produce an independent political force strong enough to counter the CPC. Therefore, these neoconservatives considered that the reform process in China must rely on a certain authoritative force applied from the top to the bottom. At present, this authoritative force is represented by Deng Xiaoping and his loyal followers.

The neoconservatives admitted that Deng is politically a mainstream conservative and dictator, but they also recognized that he provides the only authoritative force to push the economic reform forward at this time. They expressed the concern that if the reform and opening up policy went out of control, the 4 June tragedy and the "9 August" turmoil would be repeated; they therefore advocated a gradual, controlled reform process, with political reform coming only after economic reform has decisively succeeded, and with the goal of reform modelled not on the Western multi-party parliamentary democracy, but on the enlightened authoritarianism of the four little dragons in Asia.

The readiness to compromise politically on the part of the neoconservative forces has been recognized and accepted by the CPC authorities, and the line taken at the 14th CPC Congress to a large extent conformed to the neoconservative positions. This therefore is the reason why the neoconservatives in the intellectual circles are increasingly sounding like the official mouthpiece.

#### **A Bittersweet Act?**

Those who opposed the above-mentioned neoconservative views, on the other hand, argued that it was unreasonable for the neoconservatives to emphasize one-sidedly the "special" condition in China. China today is fundamentally different from the isolated China of the past. The reform and opening up process in the 1980s has long since put China in the international arena, and close interrelationships have been established between China's economy and economies of the West. This situation will certainly prevail after China enters the GATT, and particularly so in the economies of the coastal open zones which have developed a large degree of external dependence, and which are functioning along with Hong Kong and Taiwan as a unit. Under these circumstances, limiting the opening to the outside to the economy can only be wishful thinking. As a result of

further expansion of contact and opening up, not only the Western technology and management but also the Western system and values are entering into China. We should especially not ignore the many strands of relationships developed between the overseas Chinese, students, scholars and democratic movement activists with the people in China, all of which will counter the forces within China.

Furthermore, those who took the position that the Chinese peasantry had no democratic demands were also wrong. In fact, such demands had been severely suppressed by dictatorial rule in the old China long isolated from the world. The Chinese people do have a history and tradition of resisting dictatorial rule, and strong democratic demands were implicit in this kind of resistance. In the "9 August" movement, from the support of the people opposing government's arbitrary power escalating to the many citizens defying death by confronting the tanks and machine guns, how can we say that the people of China were not fighting for democracy? The question now is not that the mainland people do not want political reform and the implementation of political democracy, but it is that the CPC authorities view democracy as a flood or wild beasts, and insist that any democratic demands of the people be eradicated and indeed uprooted.

#### **The "Bottleneck" in China Today**

The CPC rule in China is based on dictatorial rule and the theoretical premise of classes and class struggle. But since the CPC itself has pronounced, class struggle is no longer a fundamental contradiction in society; why is it then that the CPC is still unwilling to abandon the concept and practice of dictatorial rule? The point is that by preserving dictatorial rule, the authorities can defend against and suppress opposition forces of the democratic faction, or "forces of the opposing enemy" as the CPC put it. A majority of the speakers considered the CPC system to be unreasonable and even absurd, for under this system, those put in power are opposed to the people and basically anti-democratic, and the "dictatorial rule" is opposed to the democratic faction and basically anti-constitutional.

Speakers at the discussion meeting pointed out that following the development and strengthening of the market economy, people of all social classes will naturally demand greater freedom and self-rule as well as legitimatizing the rights of citizens. Some speakers cited Taiwan as an example, asserting that Taiwan's economic growth (around the 1960s) took place under a system of dictatorial rule. But those who held this point of view and who thought of using it to demonstrate that the China mainland can also realize economic growth under a dictatorial system neglected another aspect of the issue, and that is the series of steps Taiwan undertook from gradually allowing for freedom of speech in the 1960s, to relaxing press censorship in the 1970s, to opening up the political process to multi-party competition in the 1980s, to today when Taiwan moves toward constitutional

government (including constitutional revisions). That is to say, although Taiwan's economic development and political reform did not go forward at the same time, they moved ahead toward the same direction.

A majority of the speakers pointed out that the realization of political democracy in China may well be a long process, and one should not indulge in the notion that a democratic political system can be established overnight. But as a first step, the people should at least be given the rights provided for in the constitution; that is to say, by implementing constitutional rule, the rights of the people should be fully respected within the framework of the constitution. But the CPC authorities still time and again would resort to "dictatorial rule" tactics to deal with situations where the citizens are asserting their rights, which not only willfully trampled on the openly promulgated constitution, but also deliberately violated human rights of the citizens.

In the context of the above discussion, a majority of the speakers called upon the CPC authorities to discuss the "constitutional rule" proposal at the first session of the National People's Congress next spring, and to approve its implementation by spelling out the procedures including the provision which guarantees free election by the citizens. If the CPC authorities cannot accede to the people's wishes, then the people have the right to rise up and struggle in opposition.

#### Discussion of Wang Shuo Short Story

93CM0089A Hong Kong KAI FANG [OPEN  
MAGAZINE] in Chinese 18 Oct 92 pp 100-101

[Article by Mo Nai (5459 1143): "Who's Papa? Who's Son; Implications of Wang Shuo's Short Story"]

[Text] Wang Shuo's short story about a father and son is rich in content. It leaves the reader with inexhaustible ponderings. Starting with the son censuring his teacher in class, it goes through a description of a generation gap, their relationships with authority, and on to a night of terror.

Just like the Japanese author, Murakami Haruki, Wang Shuo [3769 2592] is a best-selling author in mainland China. His popularity has reached Hong Kong too, and his serials are broadcast on evening TV. I also picked up "I Am Your Papa." Who after all are the father and son in this short story of 20,000 words? I realized several things after reading it.

Below I summarize the story's brilliant plot. Here is the condensed story.

#### *The story of a teacher, father and son*

One day, a callous headmaster who was old before his time called in Ma Senior and coldly feigned this as their first meeting. It all started with a female teacher misreading the word "unperturbed" as "plunder" in describing the imperialists' encroachment upon China.

Ma Senior's son, Young Ma, seized the mistake and would not let go. He just had no mercy. The teacher's reprimand nearly was drowned out by the sound of laughter. When she stormed out of the classroom, her face trembled as though struck by an electric shock. Neither side would yield. The teacher snapped at Young Ma for deliberately creating an incident, closing in steadily, and brazenly causing the entire class to disrespect her. The teacher spoke intensely, at times pushing and shoving Young Ma, who inquired, "Why are you such a brew?" He collectively insulted the teacher, a female who especially needed respect and to feel noble.

Young Ma was punished and had to write a self-criticism before the teacher would teach again. The severity of the punishment depended on the depth of his self-criticism. Ma Senior knew that he must make his son see that surrender was the only choice in this confrontation between unequal powers. A written repentance was in order according to the opponent's instructions. It was not a matter of who was right or wrong. He swore at his unconvinced son, "What made you correct the teacher, continuously interrupting her in class, indicating that you intentionally made a fool of her? The teacher can correct you, she is a teacher, you are a student." The "arrogance" of Young Ma's simple phrase, "I only know how to respect the truth," both surprised and terrified his father.

When Ma Senior was a student he wrote many self-criticisms, which aroused his interest in writing, and he became famous. As he wrote a draft for his son, he thought back to several decades ago. The teachers had not improved over time; even their mistaken words are the same. Students had not gotten any smarter, and the "cherished generation" has not even a rudimentary knowledge of society. They cannot stand grievances and just will not yield to others, so it will be only themselves who will suffer. As to whether the phrase "to make extraordinary painstaking efforts" sounded like the words of a child, it would be enough to have comfortable wording without clear tidbits of flattery.

However, watching his father write on his behalf, Young Ma did not appreciate the kindness. He felt that not only did the essay not go deep enough, but it practically called him an animal. Ma Senior ridiculed him: "You still want self-respect? You cannot consider yourself human now." Unwilling to "insult himself by the apologies of another," the son threw the paper that his father wanted him to copy on the floor. Ma Senior's anger rose gradually until he lost reason and beat his son wildly. He felt the hate of being unable to restrain his son's brazen provocation and unwillingness to follow orders. He cursed his son as a bastard, a son of a bitch who did not know good from bad. At first he thought of using a more reasonable method than the teacher's to handle the matter, as someone who maintained a distance from disreputable and immoral behavior. Yet he still acted this way, outdoing himself. He remembers swearing to himself as a child that he would never beat a child of his

own. In the course of growing older, he changed many of his original intentions, forgetting many of his aspirations.

The next day the son robotically followed his father's instructions. Then, as expected, the school warned others against following his bad example. They held a campaign. Young Ma made a self-criticism, and was criticized at a large meeting. Ma Senior's stream of abuse kind of self-criticism made everyone's hair stand on edge. When a person adopts a position they cannot stand like this, how could anyone who was kind-hearted or in trouble not feel the same for them? Furthermore, it is the nature of our compatriots to give an opponent a way out after pushing him to the wall. Anyone who is in a superior, unthreatened position desires to be a bit conciliatory to show magnanimity and reasonable integrity; plus they can appreciate the enjoyment of the opponent's tears of gratitude. After the meeting, the female teacher involved viewed Ma Senior as her sole friend. She was extremely sad, like someone who had boarded a pirate ship, telling him about the treatment, housing, social respect and misfortunes of being a low-level teacher. Then she quickly became like the most loving cadre who was beyond the highest heavens, whose mind was filled with care for youths who have taken wrong turns, urging them repeatedly with sincere words, earnest wishes and good intentions. The headmaster and other teachers rejoiced that Young Ma provided them with an excuse to show their talents. Nonetheless, his face was as solemn as always, pondering and worrying about everything.

Young Ma's self-criticism went smoothly, but the father and son were abnormally detached and cold to each other. They felt an unspeakable tension. Ma Senior felt like a memorial to a tragedy. When he met anyone's eyes, he looked as though wretchedly alert. He originally expected his son to see the matter completely resolved according to his neat and tidy plan, which would dilute his rudeness to his father and make him see his father's wisdom, correctness and lack of choice in the matter. But the son clearly was not relieved of his worries.

Ma Senior hoped that his son's personality would not change like this; such a change was most difficult to fathom. He hoped to lighten the atmosphere at home, as though nothing had occurred. He never mentioned the incident again after that night of terror. But his son would have contact with him, then not contact him, occasionally with a fleeting smile.

"I see that you hold a grudge since that day I beat you. If you hadn't made me so very angry that day. . . . Ever since you were young, when did I not first present the facts and reason things out with you? When did I not bear your mistakes? When was I ever bad to you? But this time, if you had just done what I asked from the outset, why would I have lifted my hand? My hand was a bit harsh, but I struggled to write your self-criticism. You dared not disdain to give it a look. What son treats his father this way? Whether you hate me or not, I did strike you and there is no changing that. Moreover, in the

future I may strike you once again. I hope to avoid that at all costs, but it depends on you. . . ."

"I get it. If I obey, I won't be beaten. If I disobey, I'll be beat."

"You cherish a grievance, feeling that you were not entirely wrong at the outset of this thing, that you should not have been criticized for pointing out the teacher's mistaken word. We used to be much much worse, we struggled and criticized our teachers. That was a time of upheaval. You cannot be like that now. You said, 'I only know how to respect the truth.' You probably also learned this phrase from a book. 'Everyone is equal in the face of truth.' These phrases have harmed you. You only see the sky as the sky and the earth as the earth, without noting the differences among people. I beat you out of love, setting a high demand on you in hopes you'd improve. Strike back—it's your turn! You climbed a wall. The most I can say is you were naughty. I want to climb a wall, but I would be caught for stealing. This is just like sexual equality. Only by acknowledging differences can you have real equality. The teacher is an adult, and the largest difference between her and the students is that she must have face. Why couldn't you just let her be wrong? If she made a fool of herself, that's her affair. If the whole class did not know it, then let her be kept in the dark. It was you alone who poked a hole in the paper covering the window. Those in authority are in power, no matter how real their mistakes. You can slander them all you like to yourself, but you can't point it out to their face. When one in power makes a mistake, it is just like a freight train jumping the track. You can't do anything but watch it fall off a cliff. All your effort would be but like a mantis trying to stop a chariot. You would be courting destruction."

As though just waking from a dream, the son understood the reasoning of children. "Why did everyone teach me to take a strong stand, clarify my likes and dislikes, and dare to be a little master. . . . no wonder I suffered a setback."

*A substitute reality; caring if it is true or false*

I believe that if you have read this far and were not bored to death, then you curse KAIFANG for using middle school student teaching materials to swindle intellectuals. But I am sure your mind will be changed if I tell you that this is a new work by Wang Shuo, "mainland China's Marukami Haruki," and that the most popular mainland Chinese director abroad, Zhang Yimou [1728 5669 6180], intends to make it a movie, and that I only gave you the highlights, keeping the original words and sequence of sentences, being most loyal to the original short story "I Am Your Papa." If I talk more nonsense, and substitute the Communist Party—Deng, Li, and Yang—and the students who demonstrated in front of Tiananmen Square for the school (authority)—Ma Senior—and Young Ma, respectively, and note the "dramatic memorial" and "terrifying night" from the text itself, then perhaps I can trick you into believing that you



did not read in vain these two pages of KAIFANG. However, I naturally have ulterior motives. In reality, that would be like RENMIN RIBAO extending New Year's greetings in a curse to Li Peng. That is impossible.

Kind people will definitely swear and say that whether or not your piercing farfetched analogies are correct, won't that clearly harm Wang's work or even Zhang's production? The real headmaster—authority—definitely would

not care whether it is true or false, taking my tricky nonsense as a truth to warn others against following a bad example. It may be that the two great artists, Wang and Zhang, are but junior high students in the school of the short story. They will not grow up asking experts to write such dogged self-criticisms. Under socialism with Chinese characteristics, as long as people continue to buy tickets and sing praise, they will wonder whether entertainment is true or false.

## NATIONAL AFFAIRS, POLICY

**State Council Approves 25 High-Tech Development Zones***HK2202074893 Hong Kong CHING CHI TAO PAO in Chinese No 6, 15 Feb 93 p 27*

[From the "China Economic News" Column]

[Text] After gradually giving a go ahead to 27 high-tech industry development zones, the State Council has of late approved another 25 high-tech development zones. The latest batch of development zones have been selected from a list of nearly 100 proposed development zones carried in various local newspapers. The newly approved development zones are to be located in the following cities: Suzhou, Wuxi, Changzhou, Foshan, Huizhou, Zhuhai, Qingdao, Weifang, Liubo, Kunming, Guiyang, Nanchang, Taiyuan, Nanning, Urumqi, Baotou, Xiangfan, Zhuzhou, Luoyang, Daqing, Baoji, Jilin, Jinyang, Baoding, and Anshan.

It was learned that a "development zone craze" is now going on on the mainland. The total number of development zones various localities have either raised funds or worked out plans to build has exceeded 5,000. The State Council's approval of the latest batch of high-tech industry development zones is aimed at guiding domestic and foreign investment to high-tech development and standardizing the application and approval procedures for development zones. However, to avoid giving any further impetus to the already overheated momentum of the on-going "development zone craze," the State Council has asked the news media not to publicize its latest decision.

**Futures Markets To Converge With International Markets***HK2202040093 Beijing ZHONGGUO XINWEN SHE in Chinese 1400 GMT 12 Feb 93*

[Roundup by reporter Chen Liyu (7115 4539 1342)]

[Text] Beijing, 12 Feb (ZHONGGUO XINWEN SHE)—If the China mainland's stock craze and real estate craze were said to be focuses of attention in 1992, then the futures craze may be the new "star" of this year. It will offer new opportunities for cooperation to Hong Kong and overseas futures trade.

This is manifested in two recent events. One is that Nanjing Petroleum Exchange is seeking to establish a relationship of cooperation with Hong Kong Futures Exchange Limited. Ye Zhaoxin, general manager of Nanjing Petroleum Exchange, disclosed to the media that the main trading hall of the exchange was designed and constructed by a Hong Kong company on the model of Hong Kong Futures Exchange Limited, and that the exchange will commence business in early March as scheduled. Ye Zhaoxin also said that his exchange will select and send in batches some senior management

personnel to be trained in the Singapore and Hong Kong exchanges. The other is the Guangdong Xinghan International Futures Company going into operation on 6 February. Its General Manager, Li Qi, said his exchange has joined Malaysia Futures Exchange and will also join Chicago Futures Exchange and other international futures trading organizations in a bid to participate directly in the competition in international futures markets.

When the China mainland's futures market was just in its embryonic stage more than three years ago, Chan Sun-sun, the then vice chairman of Hong Kong Futures Exchange Limited, pointed out that mainland China must develop futures markets so as to play a coordinating role in stabilizing prices of agricultural products. Shortly afterward, when interviewed by reporters in Beijing, the well-known U.S. futures market expert William Grossman also maintained that because the China mainland's agricultural production is greatly affected by price risks, it is necessary to set up a market structure to preserve value and explore future prices, and that the basic conditions have matured for China to set up a futures market.

Now, it seems that the development of the China mainland's futures markets has very much outpaced what the trade anticipated. In the past three years or so, apart from establishing Zhengzhou Grain Wholesale Market and others, which were aimed at developing futures trading, the China mainland also established a number of organs specializing in futures trading such as Shenzhen Nonferrous Metal Exchange, Shanghai Financial Exchange, Suzhou Materials Exchange, and so on. Later, a number of large markets or exchanges trading in the means of production of such important industries as coal, chemical, furnace charge for iron and steel, petroleum chemicals, and others were founded one after another. It can be stated that futures markets on the entire mainland have been deliberately diversified.

The recent establishment of Xiamen International Futures Company, Shenzhen International Futures Company, Guangdong Xinghan International Futures Company, and Nanjing Petroleum Exchange, among others, even more clearly conveyed this information: The China mainland's futures markets are seeking to converge with the international markets. To the Hong Kong and overseas futures sector, this is no doubt a new domain for cooperation, which has provided new opportunities. As General Manager Ye Zhaoxin disclosed, on the day that Nanjing Petroleum Exchange commences business in early March, settlement of transactions will be effected by its cooperating partner Hong Kong Futures Exchange Limited. Associated Press and Reuter Energy Information Transmission System will synchronously transmit the prices quoted in Nanjing Petroleum Exchange. They are perhaps the swiftest in the race.

The prospects for the "convergence" of the China mainland's futures markets with the international markets



have yet to be observed. However, as the China mainland is devoting itself to the establishment of a socialist market economic system, it is imperative for stock markets and property markets to converge with the international markets, and this will also be the case with futures markets.

### Urban Development Marks Rapid Growth

OW1602075293 Beijing XINHUA in English  
0718 GMT 16 Feb 93

[Text] Haikou, February 16 (XINHUA)—China's economic reforms and opening drive have promoted the development of urban construction over the past 14 years, a leading official of the Ministry of Civil Affairs said here today.

Statistics show that the number of cities in China has increased from 193 in 1978 to 514 in 1992, the official said.

He noted that by the year 2000 the urban population in China will reach 462 million, accounting for 35.7 percent of the country's total population.

During the past 14 years the number of cities at the prefectural level has increased from 99 to 191, and the number at county level has risen from 91 to 323.

In the same period, the number of towns has also increased from 2,167 to 12,084.

By 1990, the total population on the mainland was more than 1.13 billion. The urban population was 296 million, accounting 26.2 percent of the total.

Six large city groups have emerged in the Pearl River delta, the Yangtze River delta, the Shandong and Liaoning peninsulas and in the area of Beijing, Tianjin and Tangshan.

There are also eight large belts of cities and towns along the Yangtze River and railways including the Beijing-Guangzhou line, Beijing-Shanghai-Hangzhou line and the Beijing-Harbin line.

By the end of 1991, the gross domestic product of China's 479 cities was 1,057.7 billion yuan, an increase of 12.7 percent over the previous year, calculated in comparable prices. This was 5.7 percent higher than the average economic growth rate.

The domestic revenue of the cities was 842 billion yuan, an increase of 12.2 percent, and industrial and agricultural output value was 2,076.4 billion yuan.

### Zhang Zhuoyuan on Evolution of Economic Reform Theory

93CE0239A Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese 11 Nov 92 pp 3-8

[Article by Zhang Zhuoyuan (1728 0587 0337): "Evolution of Economic Reform Theory"]

[Text] The practice of restructuring the economy over the past dozen years proves time and again that every step forward in reform requires that we free ourselves from the grip of traditional socialist economic theories, adopt new thinking, and establish new understanding, new viewpoints, and new theories that are consistent with the reality of developing a socialist economy. In my opinion, the guiding philosophy for Chinese economic reform seems to have evolved in the following way: from the theory of the socialist commodity economy through the theory of market-orientation to the theory of the socialist market economy. The theory of the socialist commodity economy is the philosophical cornerstone of Chinese reform while the theory of the socialist market economy is its theoretical fruition. Every single advance in the theoretical arena was preceded by a major debate with leftist dogmatists but also brought in its wake a major liberation of public ideology and understanding, thereby enabling reform to take a big step forward. Certainly, the progress made in the process of economic reform as well as the experience accumulated in turn have nourished the creation of new economic reform theories and gradually instilled them deeply in the minds of the people, making possible the maturation of the theories.

### 1. Theory of Socialist Commodity Economy: Potent Weapon in the War on the Traditional Socialist Economic System

According to the traditional socialist economic theory, commodity and monetary relations are the remnants and vestiges of the old society to be kept by the socialist society only within a highly restricted area for a limited period of time. As socialist construction gets under way, it is thought, commodity and monetary relations that will begin to get in the way of economic development and should therefore be allowed to wither away. In a traditional socialist economic system, accordingly, commodity and monetary relations are discriminated against and rejected. Basic production and operating units in society are not recognized as commodity producers and operators with independent economic interests, but as the mere appendages and "abacus beads" of their departments in charge at the higher level. The state exercises a monopoly on collecting revenues and spending. Means of production are not commodities in essence and are kept out of market circulation. Elements of production like funds, manpower, and land are not treated as commodities or allowed to be commercialized but are allocated and distributed exclusively by the state in accordance with a command plan. Many basic consumer goods are rationed and can be purchased only with a coupon. The prices of almost all products and labor services are set and adjusted by the government in a way that reflects neither value nor supply-demand relations. Prices primarily serve an accounting function. The state bank, lacking any independence, is the government's cashier. The monetary policy is subordinate to the fiscal policy. Society as a whole is regarded as a giant factory

where all the production, circulation, and consumption processes are under the sort of command planning that is practically all-embracing.

The elimination of commodity and monetary relations and rejection of the market mechanism from social economic life necessarily squeezes vigor and life out of economic activities. The economy expands without developing. There is substantial economic growth calculated in terms of the increase in gross output value, but little tangible benefits accrue to the people. The efficiency with which resources are allocated declines and material scarcity becomes a distinctive hallmark of economic life. There are widening economic and technological gaps with economically developed nations and the superiority of the socialist system is not trapped. Clearly the traditional socialist economic system has become increasingly out of step with the development of highly socialized mass production. Timely and basic reform has become imperative.

What is wrong with the traditional system? Where should reform zero in? These were major issues that concerned everybody in the late 1970's.

Many a Chinese economist pointed out at the time that the root cause of the numerous ills plaguing the traditional socialist system was the rejection and elimination of commodity and monetary relations and the denial that the socialist economy is also a commodity economy, which resulted in a misunderstanding of the nature of the socialist economy. Since economic differences and conflicts objectively remain between man and man, between enterprise and enterprise, and between locality and locality in a socialist society, they argued, the existence of commodity production and exchange is objectively necessary. All economic conflicts can only be resolved in accordance with the premise of the commodity economy: the exchange of equal value. The law of exchange of equal value must also be relied upon to arouse the enterprising spirit of the people and mobilize their enthusiasm to undertake a variety of economic activities, gain a firm foothold and improve themselves amid competition, and strive for even greater economic interests, in the process invigorating the entire national economy, spurring socialist economic development, and raising the citizens' living standards.

A substantial measure of consensus on these issues was achieved among members of the economic and theoretical communities in the late 1970's and early 1980's.

1. The socialist society must vigorously develop commodity production and commodity exchange. Commodity and monetary relations must be developed not just between different ownership systems, but also within the economy owned by the whole people.

2. State enterprises also should be relatively independent commodity producers and operators with their own independent economic interests. Expanding decision-making authority to enterprises should mean first and foremost giving them more economic power.

3. Capital goods exchanged within the economy owned by the whole people essentially are also commodities. The circulation of materials and commodities must replace the existing planned allocation and in-kind exchanges. A market for capital goods must be created and developed over time.

4. Respect the law of value. Recognize its regulatory role in social production and circulation. Apply the principle of exchange of equal value between economies of different ownership systems as well as between different sectors, regions, and enterprises within the economy owned by the whole people.

5. Affirm that the planned economy must utilize the market mechanism, that it is important and necessary to develop the urban and rural country fair trade, that the consumer goods market must be further developed, and that the development of individual retail commerce must be permitted.

6. There is competition inside the socialist economy. The competitive mechanism must be used to spur technological progress, improve management and operations, and better economic results.

7. Improve the price structure as required by the law of value. To enforce the principle of exchange of equal value in the exchange of industrial products for agricultural products, we need to narrow and eliminate the price scissors. The same principle should be applied in exchanges within the economy owned by the whole people.

Meanwhile, different opinions were also being debated. In 1982-83, several socially influential comrades objected to the thesis that the socialist economy is also a commodity economy. Although commodity production and commodity exchange still exist in China, they argued, we absolutely must not generalize our economy as a commodity economy. By making such a generalization, we would interpret inter-personal common ownership and joint labor under socialism as the relations of the exchange of equal value, and conclude that it is the law of value and not the basic economic tenets of socialism or the principle of planned development that primarily shapes economic activities. When that comes to pass, the line between the socialist economy developed in accordance with a plan and the anarchistic capitalist economy would inevitably be blurred and the essential distinctions between the socialist economy and capitalist economy would become fuzzy. Thereafter some of the economists who had written articles advocating a socialist commodity economy came under criticism. Major economic theoretical publications were instructed not to publish articles that called for a socialist commodity economy. Nevertheless the practice of suppressing academic discourse with administrative fiat did not work for long. By about late 1983 articles arguing that the socialist economy is also a commodity economy began reappearing in the press. Using economic restructuring in the real world as its backdrop and

marshalling more ample theoretical arguments, these articles attracted even more widespread public attention and support. In October 1984 the Third Plenum of the 12th CPC Central Committee passed the "Decision of the CPC Central Committee on Restructuring the Economic System," thus putting an end to the debate on the major issues mentioned above and declaring that the Chinese socialist economy is a planned commodity economy based on public ownership. At long last the theory of the socialist commodity economy was adopted.

The proposal for a socialist commodity economy and its adoption powerfully stimulated Chinese economic structural reform and exercised a profound impact. It made a gaping hole in the traditional highly centralized planned economic system.

To begin with, state command planning is no longer all-embracing as it has ceased to control all facets of social economic activities, including production and circulation. The scope of command planning has gradually shrunk over time; at present it controls just about 10 percent of industrial production. As far as capital goods are concerned, only 300 million tons of coal out of a total output of 1.1 billion tons come under centralized allocation and just 100 billion jin of commodity grain out of a total of 200 billion are procured by the state.

Second, state enterprises now have increasing decision-making authority in their operations and are on their way toward becoming commodity producers and operators that have decision-making authority in their operations and are responsible for their own profits and losses. The system of profit retention, for instance, has gradually enabled state enterprises to have their own funds. In 1984 retained profits already accounted for 21 percent and 40 percent of state enterprises' net incomes and profits realized, respectively. Corresponding figures for 1978 were 2.8 percent and 4 percent, respectively.

Third, a variety of economic formats has developed rapidly. Even as we insisted that the economy owned by the whole people remain dominant, the urban collective economy as well as township and town enterprises in the

countryside have expanded by leaps and bounds, as have individual households, private enterprises, and enterprises that are either wholly or partially foreign-owned. In 1978, ownership by the whole people accounted for 77.6 percent of the gross value of industrial output and collective ownership, 22.4 percent, while the share of the individual economy, private economy, and Sino-foreign joint ventures and contractual joint ventures was nil. By 1990, however, the numbers had changed: ownership by the whole people, 54.6 percent; collective ownership, 35.6 percent; individual economy and private economy, 5.4 percent; and Sino-foreign joint ventures and contractual joint ventures, 4.4 percent. In the commodity retail business, the individual economy and private economy have made rapid strides. In 1978, ownership by the whole people accounted for 54.6 percent of all social commodity retail sales; collective ownership, 43.3 percent; other economies, just 2.1 percent. By 1990, however, the proportions were 39.6 percent, 31.7 percent, and 28.7 percent, respectively.

Fourth, a host of markets have flourished, not only consumer goods markets, but also markets for capital goods and labor services. Across the nation there are now over 1,600 wholesale special and general markets for agricultural byproducts, 3,400 wholesale markets for small industrial commodities, and 1,000 markets for assorted capital goods, including 294 steel markets. In addition, an array of markets for elements of production have been set up or are in the process of being set up, including two fairly standardized stock exchanges that opened in Shanghai and Shenzhen in late 1990 and early 1991, respectively. The expansion of market relations and the gradual formation of a market system that is integrated across the nation, open, and competitive have extended the reach of the competitive mechanism into every corner of social economic life.

Fifth, the share of market-regulated prices is ever on the rise. Changes in the proportions of the various forms of prices in gross social commodity retail sales, total volume of agricultural products sold by peasants, and the total value of industrial capital goods based on ex-factory prices since 1978 are presented in the table below:

Table 1. Changes in Proportions of Prices Since 1978

Year	Total Social Commodity Retail Sales=100			Total Agricultural Products Sold by Peasants=100			Total Value of Industrial Capital Goods Based on Ex-Factory Prices=100		
	state fixed prices%	state guidance prices%	market-regulated prices%	state fixed prices%	state guidance prices%	market-regulated prices%	state fixed prices%	state guidance prices%	market-regulated prices%
1978	97		3	92.6	1.8	5.6	100		
1979				88.4	4.9	6.7			
1980				82.3	9.5	8.2			
1981				79.1	11.5	9.4			
1982				78.3	11.5	10.2			
1983				76.1	13.4	10.5			
1984				67.5	14.4	18.1			
1985	47.0	19.0	34.0	37.0	23.0	40.0			



Table 1. Changes in Proportions of Prices Since 1978 (Continued)

	Total Social Commodity Retail Sales=100			Total Agricultural Products Sold by Peasants=100			Total Value of Industrial Capital Goods Based on Ex-Factory Prices=100		
1986	35.0	25.0	40.0	35.3	21.0	43.7			
1987	33.7	28.0	38.3	29.4	16.8	53.8			
1988	28.9	21.8	49.3	24.0	19.0	57.0			
1989	31.3	23.2	45.5	35.3	24.3	40.4			
1990	30.0	25.0	45.0	25.2	22.6	52.2	44.4	18.8	36.8
1991	20.9	10.3	68.8	22.2	20.0	57.8	36.0	18.3	45.7

The increase in the share of market-regulated prices and their rising dominance epitomize the growing relative importance and dominance of market regulation in social economic activities. This is the most significant progress we have made since reform began.

Furthermore, stimulated by the commodity and monetary relations, the financial and tax system, banking system, investment system, foreign trade system, and labor and wage system have been reformed to varying extents with some success.

## 2. The Market-Orientation Theory: Theoretical Basis for Continuing Reform

After 1984 the focus of the debate on reform in the economic and theoretical communities in China was no longer the recognition or nonrecognition of the socialist economy as a commodity economy. Instead, the focus had now shifted from the different interpretations of the meaning of a planned commodity economy to whether or not to endorse market orientation. Between 1985 and 1991, there were essentially two different interpretations of the meaning of a planned commodity economy. One interpretation emphasized the "commodity economy" aspect. Under this interpretation, the socialist economy is first and foremost a commodity economy; commodity economic activities are basic economic activities. The planned commodity economy is secondary. The other interpretation stressed the "planned" aspect. Its proponents argued that the planned economy or planned regulation should always retain its preeminent role in the socialist economy. These two different interpretations led to two different reform theories and philosophies. One school emphasized the role of the market and market regulation. Between planning and market, it favored the latter. Its proponents advocated market-oriented reform and were not content with using the market mechanism within the framework of the planned economy. The other school often ended up calling for reform guided by scientific planning. It emphasized the improvement of the planning mechanism and the macro-economic control system. Because they believed market regulation can only supplement the planned economy, the proponents of this school were opposed to market-oriented reform.

The theory of market-oriented reform is an improvement upon the theory of the socialist planned economy. The theoretical progress and practical significance of moving

from generally recognizing the socialist economy as a commodity economy to affirming that reform must be market-oriented mainly manifest themselves in the following ways:

First, the theory of market-oriented reform emphasizes the standing and function of the market and market regulation in social and economic operations. The essence of economic restructuring is to expand the scope and role of market regulation and strengthen the role of market mechanism in the allocation of social economic resources. Constrained by traditional economic theories, some economists avoided saying or expressed opposition to the notion that a socialist society must use the market and the market mechanism even though they agreed that a socialist society need to develop commodity production and commodity exchange and even a commodity economy. They often equated market with disorderliness and chaos in economic life and thought of the former as a destructive force. Hence their market-phobia. It is precisely the goal of the theory of market-oriented reform to further liberate public thinking from the above-mentioned theoretical straitjacket, affirm the market, and endorse market competition as a built-in mechanism of the socialist economy.

Second, affirm that a host of social economic activities must be guided by the market. The report by the 13th CPC National Congress put forward a new economic operating model: "The state regulates the market and the market guides enterprises." We can say this clearly sums up market-oriented reform. With the market guiding enterprises, it is obvious that microeconomic activities in society must be regulated by the market instead of command planning by the state, thus indicating a recognition of enterprises as genuine commodity producers and operators that enjoy decision-making authority in their operations and are responsible for their own profits and losses. This presages a future in which social economic operations will be coordinated extensively by the market instead of administrative actions. Since "market guiding enterprises" does not specify which enterprises are to be so guided, state enterprises, particularly large- and mid-sized ones, should normally be guided by the market as well. This points up the right direction for the revitalization of large- and mid-sized state enterprises.

Third, affirm the commercialization of capital goods and buy and sell them on the market. The fact that the activities of enterprises are normally guided by the market not only recognizes that material products and labor services are commodities that must circulate on the market, but also suggests that all capital goods, including funds, manpower, land, and minerals, among other

things, must also be commercialized over time and circulate through the market. This makes it necessary for us to develop a new concept of a unified socialist market system. Such a concept is precisely one of the more unequivocal and concentrated expressions of the theory of Chinese economic reform. We all remember that the "Decision of the CPC Central Committee on Restructuring the Economy" adopted by the Third Plenum of the 12th CPC Central Committee in 1984, displayed some theoretical hesitation as when it declared that labor as well as a host of state enterprises and resources such as land, mines, banks, and railroads are not commodities even as it affirmed the socialist economy as a planned commodity economy. The fact of the matter is that as the commodity economy develops, particularly as market-oriented reform advances, the commercialization of labor, land, mines, banks, and railroads is all but inevitable, as is their circulation on the market. Otherwise, there can be no free circulation of capital goods. If we don't have the free circulation of capital goods, there is no way the market can guide enterprises.

Fourth, deregulate prices and establish a market price mechanism. Prices lie at the heart of the market, and the price mechanism lies at the heart of the market mechanism. It is primarily through prices and price movements that the market fulfills its guiding role. In order for prices to fulfill their guiding role, we must change the form of prices. The key is to let prices be formed through market exchange, bring about the transition from administrative price-fixing to market price-fixing, and replace a single set of planned prices with prices regulated by the market. Not only must prices of all commodities and labor services be formed through market competition, but so must the prices of all elements of production. The so-called market in this context refers to a unified, open, and competitive market system with a complete set of rules and regulations. It is also a market system linked to the international market. Price reform must move from price reform as narrowly defined to the kind of broadly defined price reform that includes the reform of the prices of all capital goods.

The theory of market-oriented reform or a philosophy of market-based reform ran into some opposition and criticism in 1989-1991, with certain individuals politicizing it by calling it an expression of bourgeois liberalization. It was thoroughly criticized in an article entitled "Casting Doubt on the Market-Oriented Theory."

The author wrote, "It goes against the basic guiding principle behind Chinese economic reform—integrating the planned economy with market regulation—to sum up the expansion of the share of reform and use of market regulation as market-oriented reform and even make it the goal of economic reform. It will readily lead to such ideological confusion as equating the planned economy with market economy and equating the integration of the planned economy with market regulation with market orientation, which will make a fetish of the market." The article also said, "The pre-reform Chinese economy was neither a wholesale planned economy nor

a full-fledged commodity economy. Instead it contained elements of both the planned economy and commodity economy. Thus any theory that says reform has to mean turning a natural economy or product economy into a commodity economy and therefore concludes that market orientation is the only way to go is unscientific in itself. In my opinion, our reform orientation must be one which puts equal emphasis on bringing out the superiority of the planned economy and putting market regulation to good use, which are organically related, in accordance with the demands of such objective economic principles as basic economic laws, the law of value, and the principle of planned proportionate development." (Footnote 1) (Lu Lijun [7120 4539 6511], "Casting Doubt on the Market-Oriented Theory," in ZHENLI DE ZHUIQIU No 2, 1992.)

To my mind the above viewpoint was untenable and unpersuasive.

First of all, the writer's assessment of the pre-reform Chinese economy was factually inaccurate. The writer's contention that the pre-reform Chinese economy contained elements of both the planned economy and market economy was substantially different from the assessment of most people. The thrust of the article was to deny that the traditional system rejected commodity and monetary relations and the market mechanism and that the planned economic system epitomized by a highly centralized form of command planning controlled the economy to death and snuffed out from it any vitality and energy. No wonder the writer downplayed economic structural reform as "putting equal emphasis on bringing out the superiority of the planned economy and putting market regulation to good use, which are organically integrated," instead of regarding it as a fundamental transformation of the traditional system. What the writer had in mind was actually the perfection of planning since he rejected the need to reform the traditional system. He believed only limited adjustments of the traditional system were needed, not fundamental extensive reform, and certainly not another revolution or a second revolution.

Second, the writer objected to market-oriented reform mainly out of a fear that the planned economy as he perceived it would be rejected. In fact, proponents of the theory of market-oriented reform do not reject planned guidance and macroeconomic control, only the kind of planned economy epitomized by command planning. As we see it, by rejecting the market and market mechanism, the traditional system has hampered the development of productive forces. Thus the purpose of reform is to enable the market mechanism to do its part, broaden the scope of market regulation and its share of the economy, and use market forces to vitalize the national economy, and liberate and develop productive forces. At the same time, owing to the limitations inherent in the market and market mechanism, market-oriented reform in socialist nations must be combined with planned



guidance and macroeconomic control so that the micro-economy and the entire national economy can be revitalized without sacrificing our long-range strategic development objectives or the overall structural balance, ensuring the steady, coordinated, and highly efficient development of the national economy. Accordingly, planning work must be extensively overhauled. Other than specific aspects that can be retained, command planning must be eliminated and replaced by policy-based planning, forecasting planning, guidance planning, or inductive planning. These types of planning must honor the law of value and the law of the market if they are to be effective and be able to steer a host of commodities and market economic activities into the orbit of planned development. In short, market-oriented reform requires that we genuinely revolutionize the traditional planning system and planning work.

### 3. The Theory of the Socialist Market Economy: Fruition of the Theory of Chinese Economic Reform

It was in early 1988 that the Chinese economic community began discussing the socialist market economy in a socially influential way at a seminar in Guangdong, home of the most advanced commodity economy and market economy in China. Subsequently the Guangdong "market economy seminar" editorial group edited and published a book titled *Market Economy in the Initial Stage of Socialism* in which dozens of economists explored the theoretical and practical issues relating to the socialist market economy from all perspectives and all aspects. The book received widespread attention in the economic and theoretical circles and was a shot in the arm for the study of Chinese economic reform theories.

In June 1989, the CPC Central Committee put forward the principle of combining the planned economy with market regulation. Some people interpreted the principle to mean a retreat to the old formula of emphasizing the planned economy, with market regulation as a supplement. The drive to improve the economic environment and rectify the economic order had just gone under way at that time. To rein in inflation, the government was taking a number of anti-market measures and stressing planned control and centralized leadership anew, prompting some individuals to use the idea of combining the planned economy with market regulation as a theoretical justification for the temporary retreat from reform. Against this backdrop, no sooner had the theory of the socialist market economy come into being before it came under enormous pressure. Some leftist theoreticians and politicians even considered it necessary to pin political labels on it and criticized it sharply.

Be that as it may, the momentum of reform in China could not be turned back. Soon the public discovered that even the drive to improve the economic environment and rectify the economic order must go hand in hand with continuing reform. After achieving a measure of success, the drive to improve the economic environment and rectify the economic order actually created a

favorable climate for the effort to continue reform. Beginning in the winter of 1989, market-oriented reform, especially price reform, resumed its big strides forward. Buttressed by the practice of reform, many economists called on us to further rid ourselves of our market phobia and use the market mechanism more boldly to improve the efficiency with which resources are allocated and the performance of the national economy.

In early 1991 and early 1992, Comrade Deng Xiaoping said in no uncertain terms that a little more planning or a little more market is not an essential distinction between socialism and capitalism. The planned economy is not the same as socialism; there is planning under capitalism too. The market economy cannot be equated with capitalism; a market exists under socialism also. Both planning and the market are economic means. The essence of socialism is to liberate and develop productive forces, abolish exploitation, and eliminate polarization, ultimately achieving common wealth. These words by Deng Xiaoping further enriched and elaborated the economic reform theory and socialist economic theory, powerfully boosting the study and dissemination of the theory of socialist market economy. In 1992 there was an bumper crop of articles in the press exploring this theory. (Footnote 2) (I have also published a short article on this subject: "Striving To Develop the Socialist Market Economy," in CAIMAO JINGJI No 8, 1992.)

Affirming the theory of a socialist market economy is enormously significant both theoretically and practically. Most important, we need to learn from the experience of economically advanced nations in using market competition to bring about economic prosperity more boldly and extensively, speed up the establishment of a competitive market system, rely on market relations and the market system, which are getting more developed by the day, improve the use and allocation of resources, enhance the efficiency of national economic activities, speed up economic development, and narrow the gap with economically developed nations and regions. Practice proves that the old traditional planned economy epitomized by command planning will only further widen the economic and technological gaps between China and the developed nations of the world instead of giving us a comparative edge over capitalism. Only by boldly absorbing and making use of all the fruits of civilization achieved by human society and all the advanced management and operational methods of all nations in the world today, including capitalist nations, that reflect the laws of modern socialized production can we rouse ourselves to catch up and enable the Chinese socialist system to secure a foothold in its competition with capitalist economies by bringing out its superiority. As for the basic elements of the market economy including "market," "market regulation," "market mechanism," and "competitive market mechanism," they are the most important means of generating prosperity and progress in human society and promoting rapid economic development.

The only way to end the isolation of the Chinese economy thoroughly, open it up to the outside world, and participate fully in competition on the world marketplace is to affirm the socialist economy as a market economy as well. Pressures generated by competition on the world market will compel us to speed up the reform of the old order, which has hamstrung economic development. The first to feel the impact would be enterprise reform. The traditional enterprise system in which government administration was used with enterprise management will become totally unsuited for the new environment of international market competition. All enterprises that produce, buy, or sell competitive products will be eliminated if they fail to face up to the ferocious competition on the marketplace, improve their technology and product quality endlessly, and enhance their profitability. It can thus be seen that openness and reform complement and stimulate each other.

The theory of the socialist market economy has finally clarified the goal of Chinese economic reform. Needless to say, a string of issues need to be examined and worked out during the transition to the new order of a socialist market economy.

## PROVINCIAL

### Beijing Achieves Results in Exporting Labor Services

OW1102224893 Beijing XINHUA Domestic Service  
in Chinese 0821 GMT 11 Feb 93

[By reporter Li Yafei (2621 0068 7236)]

[Text] Beijing, 11 Feb (XINHUA)—The Beijing Urban Construction Corporation recently won the bidding to build the \$230 million Tehran subway. Meanwhile, the construction of the 250,000 square-meter Sentul housing area in Kuala Lumpur, Malaysia—contracted by the Beijing Construction Engineering Group—has commenced. A ribbon-cutting ceremony was recently held to mark the completion of Nippon Tenka Park [name as received]—the largest overseas park of classical architectural style ever built by our country—through the joint efforts of the Beijing International Economic Cooperation Company and the Classical Park Architectural Engineering Company. These projects were announced to the media today by the Beijing Municipal Foreign Economic Relations and Trade Commission.

Beijing has achieved splendid results in contracting foreign construction projects and exporting labor services to foreign countries through various channels and in a wide-ranging manner. These services encompass various business sectors, provinces, municipalities, and states. In 1992, the municipality signed new contracts worth \$390 million, handled \$110 million in business volume, and sent 3,200 assorted workers to foreign countries. These figures were 1.75 times, 2.25 times, and 47.6 percent more than in the previous year.

In the past, companies engaged in foreign economic cooperation were the sole "window" through which Beijing municipality conducted economic relations and cooperation with other countries. Relevant departments have now authorized the Shougang Company, the Beijing Construction Engineering Group, the municipal Architectural Design and Research Institute, and other units to engage in foreign economic cooperation. Through its affiliation with foreign economic companies, Beijing municipality has allowed business sectors and large and medium-sized enterprises without foreign economic powers to establish 28 subsidiaries engaged in urban construction, machinery, tourism, catering, commerce and trade, and agriculture. This has enabled relevant business sectors and enterprises to directly contract foreign construction projects and to engage in labor service cooperation with foreign countries. Last year, these subsidiaries signed \$210 million worth of contracts with foreign countries. Approximately half of the country's 200 foreign contract and labor service companies are located in Beijing. Beijing Municipality has supported these enterprises in actively contracting foreign economic projects from the central government and from companies in other provinces and municipalities. The Sri Lankan highway bridge project, the Portuguese park project, and contracted ventures in Vietnam and South Africa were secured through these channels. The Beijing authorities also have encouraged enterprises to actively foster joint equity and cooperative ties with foreign companies of good reputation and standing, as well as to undertake transnational operations. For instance, the Beijing International Economic Cooperation Company and Japan's Tanimura Company have jointly funded parks of classical architectural style on the international market. The Beijing International Economic Cooperation Company has also contracted water control projects in third countries with Australia's IGA company, and developed local real estate with Singapore's Fuliangsheng Company [name as received].

Beijing has established overseas posts at an unprecedented pace through its extensive and diverse efforts to open up international markets. The municipality has successively built foreign economic cooperative outlets in more than 20 countries and regions, including Tunisia, Malaysia, the United States, Japan, Hong Kong, Macao, Singapore, Indonesia, the CIS, Kenya, and Thailand. It has also sought cooperative partners for development purposes in those countries and regions, expanded the regional base for cooperation, and increased the number of cooperative projects.

### Cheng Weigao Discusses Banking Reform Issues

SK1402142393 Shijiazhuang Hebei People's Radio  
Network in Mandarin 2300 GMT 12 Feb 93

[Text] At the recent provincial forum of bank presidents and insurance company managers, Cheng Weigao, secretary of the provincial party committee and governor of the province, pointed out: All banking units should strive to expand the scale of business, raise funds from

diverse channels, vigorously increase savings deposits, and tap the potential of funds to ensure the demands of the provincial economic development this year and to better serve the rapid and high-efficient development of the economy.

On behalf of the provincial party committee and the provincial government, Cheng Weigao thanked the banking units for their work and contributions to the province's reform, opening up, and economic construction last year. He said: Banking and the economy share a common fate. Economic development must rely itself on banking invigoration. The degree of the banking invigoration determines the degree of economic development. To accelerate the development of Hebei's economy, we should carry out a large number of capital construction projects, a large number of technological transformation projects, and a large number of foreign-funded enterprises and township enterprises. Not a single one of them can be dispensed with, and the focus should be put in capital construction and technological transformation.

This year, the province will start the construction of 159 projects, a record year, which needs a total investment of 17.5 billion yuan. Therefore, whether or not Hebei will become an economically strong province depends to a large extent on the banking situation. [passage indistinct] All levels of governments and all banks should join hands to accelerate the circulation of funds and tap potential of funds. Banks should strive to open as more deposits agencies as possible in line the demands of the people.

Cheng Weigao stressed: We should deepen the banking reform to better gear the banking to economic construction. The relevant measures adopted by the provincial government should be carried out firmly and unswervingly. Under the new situation of [words indistinct], the banking reform should be pushed forward instead of drawing back. We should make full use of the banking as an economic lever to help solve the deep-rooted problems in the province's economic construction and to help change the operational mechanism of enterprises. Those enterprise which incur grave losses, which are on the verge of bankruptcy, and whose output cannot make up for their debts should be [words indistinct]

### **Economic Sectors Booming in Jiangsu Province**

OW1602115293 Beijing XINHUA in English  
1014 GMT 16 Feb 93

[Text] Nanjing, February 16 (XINHUA)—Businesses under the public, collective and private ownerships as well as foreign-funded enterprises are all booming in the east China province of Jiangsu, which produces one-tenth of the wealth of the country.

Last year, state industries achieved a 22 percent increase in gross output, the increase for collective enterprises was 84.6 percent, and other sectors of the local economy recorded even greater increases.

In the past, all enterprises, 99 percent of which were small in size, belonged to the public sector and operated under state planning. Later on, other ownership businesses took big strides.

By 1978, the total output of public ownership enterprises dropped to 40 percent of the total, the proportion of collective enterprises grew to take up 50 percent of the total, and other sectors accounted for the remaining 10 percent.

Meanwhile, state enterprises were constantly upgraded and regrouped, and the province's petrochemical, electronics and machine-building industries are now leading in the country, and they produce one-third of the province's total output value.

The province's 100,000 rural enterprises, mostly collectively-owned, produced 310 billion yuan in output value last year and they have become the major source of state revenue in the province. They are forming enterprise groups and becoming technology-intensive and export-oriented. Last year, they put in 14 billion yuan for technical upgrading.

Foreign-funded businesses have also become sizable in the province. Last year, the 3,000 foreign-funded enterprises in operation exported 1.3 billion U.S. dollars worth of products, 28 percent of the total for the province.

Private businesses in the province have also grown. Share-holding companies are mushrooming. Enterprises of different ownerships are enhancing cooperation links.

### **Liaoning Holds Conference on System Reforms**

SK1702092693 Shenyang Liaoning People's Radio  
Network in Mandarin 2300 GMT 16 Feb 93

[Text] The provincial work conference on system reforms opened in Shenyang on 16 February. Vice Governor Wen Shizhen attended the conference and delivered a report entitled "Earnestly Implement the Spirit of the 14th CPC Congress, Accelerate the Pace of Reforms, and Promote the Work of Improving the Province's Economy to a New Level."

After reviewing the situation created by our province in the reform of economic systems last year in his report, Wen Shizhen emphatically arranged the tasks of conducting economic system reforms throughout the province this year. He said: 1993 is the first year in which efforts should be made to promote the reform in line with the target adopted at the 14th CPC Congress with regard to establishing the socialist market economy. Under the new situation, reforms in various fields should be carried out strictly according to the principles of the socialist market economy.

Wen Shizhen said in his report: Enterprise reform during the new year still represents our province's emphasis in its reform programs. Efforts should be made to regard as a focal point the work of accelerating the transformation



of business mechanism among the state-owned large and medium-sized enterprises, to deeply implement the regulations and rules, and to delegate in an overall way the self-determination right of enterprises. While continuously pushing forward the reform in the systems of enterprises' personnel affairs, labor affairs, and distributions and the reform of enterprises' internal organs, efforts should be made to further conduct reform or straighten out the leadership systems of enterprises and to accelerate the reform in the property-right systems. Efforts should be also made to deal with as soon as possible the blurred relationship among different assets, the blurred responsibility of property rights, and the serious leaks of publicly-owned assets. The reform in the business styles of enterprises should be accelerated and the pace of organizing enterprise groups should be also quickened.

Wen Shizhen said in his report: By proceeding from the reality this year, we should make an important step in establishing market systems with an integrated, unified, open, and right-order structure; improving the unified systems of social security; and in building the scientific and rational systems of macro readjustment and control. We should also make a crucial step in shifting the governmental function and conducting institutional reforms.

Attending the conference on 16 February were provincial leaders, including Yue Qifeng, Yu Xiling, Xiao Zuofu, and Yue Weichun.

During the conference, (Zhang Fu), chairman of the provincial system reform commission, delivered a report on relaying the spirit of national work conference of system reforms.

### One-Third of Shandong Enterprises To Issue Shares

HK2202122593 Beijing ZHONGGUO XINWEN SHE  
in English 0837 GMT 22 Feb 93

[Text] Jinan, February 22 (CNS)—The just-ended Shandong provincial economic work conference decided that this year one-third of the province's state-run enterprises will adopt the shareholding system and all collectively-run and township enterprises will implement the shareholding cooperative system. In addition, it is planned for a number of enterprises to issue stock for trading.

By the end of last year, the number of industrial enterprises in Shandong practising the shareholding system numbered a mere 200 with no transactions listed and two features present, one of which was the shortage of capital for construction and the other a large outflow of capital from the province into other places.

### Shanghai To Converge With International Market

OW1602115193 Beijing XINHUA in English  
1057 GMT 16 Feb 93

[Text] Shanghai, February 16 (XINHUA)—East China's Shanghai City, a major industrial and financial center in China, hopes to converge with the international market in the next three years through further opening to the outside world, a top official said here today.

Huang Ju, mayor of the city, told the first session of the 10th municipal people's congress that the shift will concern four aspects—finance, trade, industry and management.

In his government work report, the mayor said that Shanghai will take further steps to make its ties with international financial systems closer. The number of foreign-funded banks will be increased and more jointly-funded financial organizations will be set up in the city.

Shanghai will also establish more joint ventures to develop the re-export trade in the Waigaoqiao free trade zone in the Pudong New Area. Foreign trade autonomy will be granted to more companies.

In addition, more production materials markets, including all forms of spot and futures markets, will be created in accordance with international practice.

In the shift of industrial production, Huang said that Shanghai will try to attract more leading international companies to invest in Shanghai. It will also set up more overseas companies.

The mayor stressed that Shanghai is to adapt its management systems to international standards in more than 700 large and medium-sized state-owned enterprises covering quality, costs, labor, wages and accounting.

### Industry Continues To Grow in Shanghai

OW1102213893 Beijing XINHUA in English  
1547 GMT 11 Feb 93

[Text] Shanghai, February 11 (XINHUA)—Industry in China's leading industrial city of Shanghai has continued to grow at a high speed since the beginning of this year.

According to the Shanghai Municipal Statistics Bureau, the city recorded an average daily sales volume of industrial products of 686 million yuan (about 120 million U.S. dollars), an increase of 23.6 percent over the same period of last year.

The total industrial output value of the month was 18.458 billion yuan, 7.1 percent more than the same month of 1992.

The growth rate in the Pudong New Area in the city was even higher, with the industrial sales reaching 2.86 billion yuan, an increase of 8.1 percent over the same

period of last year and the export volume reaching 368 million yuan, accounting for nearly one-fifth of the city's total.

The city exported 2.045 billion yuan worth of manufactured goods in January.

The growth rate of foreign-funded enterprises in the city was higher than the city's average, with the sales volume reaching 2.7 billion yuan, increasing by 37.3 percent over the same period of last year.

### **Shanghai Auto Industry's Development Noted**

*OW1902133093 Beijing XINHUA in English  
1252 GMT 19 Feb 93*

[Text] Shanghai, February 19 (XINHUA)—Last year, Shanghai's auto industry became the backbone industry in the city's economy.

In 1992, income from the sales of Shanghai-produced automobiles reached 21.5 billion yuan (about 3.77 billion U.S. dollars), an 80 percent increase over the year before, while profits climbed to 1.5 billion yuan.

Last year, the city co-produced with its German partner 170,000 Santana cars, which have become a symbol of the city's auto industry, with 75 percent of spare parts produced locally.

This year, output of Santana cars is expected to increase by 100,000.

A new Santana model will soon be put into production.

Taking the production of Santanas as the lead, Shanghai has been striving to keep up with world automobile developments, which in turn has encouraged progress in the metallurgy, meters, glass, plastics and oil refining industries.

By the end of last year, the city's auto industry held 1.8 billion yuan in fix assets and property valued at 9.3 billion yuan, both of which increased by 400 percent over five years ago.

The city's auto industry will soon cooperate with such renowned enterprises and corporations as the US-based Ford Motor Company.

### **Tianjin Holds Price Work Conference on 10 Feb**

*SK1102100393 Tianjin People's Radio in Mandarin  
2300 GMT 10 Feb 93*

[Text] The reporter learned of the fact at the municipal price work conference held on the morning of 10 February: In 1992, the municipality registered the highest speed and made the most noticeable achievements in price reform. Last year, the municipality successively worked out four major measures for price readjustment and decontrol and delegated to lower levels a group of rights to price management. Thus, the extent of the state direct price management has been reduced.

According to the statistics, the number of commodities whose prices are managed by the municipality and the number of service charges under the municipal management were reduced from 265 to 53 in 1992, a drop of 80 percent. Viewing the general situation, we know that although the prices were readjusted and decontrolled to a great extent, the total demand and supply were basically balanced and there were fairly ample supply of commodities. The consumers basically set their mind at rest and the market prices tended to develop steadily.

Zhang Haosheng, vice mayor of the municipality, pointed out at the conference: The price work is an extremely important work and related to the economic development and the social stability. The price departments at various levels should further emancipate the mind, seek truth from facts, grasp favorable opportunities, do solid work, speed up the pace of price reform, and better suit the needs of the market economic development.

Zhang Haosheng urged: In regard to the study of price reform and the promulgation of the price policies, the price departments at various levels should proceed from reality; take the enterprises' assimilation ability and the people's economic bearing capacity into consideration; make a unified plan for coordinating the price reform with the reform of the housing system and the social welfare system, including the medical insurance system; and gradually bring the price reform into line with the municipal specific program for the economic reform.

## **FINANCE, BANKING**

### **Banks Need To Adjust to Market Economy**

*92CE0229A Beijing JINGJI RIBAO in Chinese  
8 Dec 92 p 3*

[Text] There are currently two schools of thought regarding how banks can participate in the socialist market economy and continue to develop. The primary difference between these two schools of thought is in how to bring into play the handful of large state-owned banks.

One school of thought holds that these few state-owned banks should be directly controlled by the government, and should be the mechanism or tool with which the state implements macroeconomic regulation and administration of the economy. To ensure the correct developmental direction of the entire economy, the state must not abandon direct control over these few large banks, particularly after the market economic system is established and economic units at all levels have become more autonomous.

The other school of thought holds that the banking industry is the center of economic activity. Large state-owned banks are a principal component of the banking industry, and must enter the market along with state-owned enterprises. I favor consideration of banking



reform based on the second school of thought, and on that basis put forward the following several reform measures:

**One, establish a government bank that deals exclusively with banking business that the government needs to directly manage and control.**

Quite a few people in the economic field currently believe that China's Central Bank handles a variety of ordinary banking business, establishes many levels of organization, and is closing ranks with the few large state-owned banks. In addition, the few large state-owned banks concurrently handle quite a bit of business that must be carried out according to government intentions, and they are closing ranked with the Central Bank—"The Central Bank is not like a Central Bank, commercial banks are not like commercial banks." Establishing a government bank that exclusively handles the ordinary banking business now handled by the Central Bank, as well as the business handled by the large state-owned banks that must be under the government's direct management and control, is the most feasible way to change the situation.

China's few state-owned banks are currently too much like state economic organs. To a great extent, their professional activity is in the service of state policies and political agendas. They must handle a variety of business for which they cannot take profit or loss into account. They must support various deficit-running enterprises that the government must maintain, and sometimes they must even go as far as to provide loans for political stability and unity. How can they enter the market this way? The principle of the market is equal exchange, fair competition; if the large state-run banks take on the burden of the aforementioned business, how can they compete with foreign-owned banks, collective banking institutions and joint-stock banks that don't have this burden? How can they enter the world financial market, compete with large multinational banks and achieve quick development? For these reasons, the aforementioned business currently shouldered by large state-run banks should be transferred to the government bank.

The specific mission of government banks, besides the business currently shouldered by the few large state-run banks that cannot take into account profit and loss and must be under the government's direct management and control, should include the ordinary banking business currently carried out by the Central Bank, such as loans for special projects, part of the credit business currently managed by financial departments, and business currently handled by lower levels of the Central Bank that must be maintained.

By reorganizing the lower levels of the People's Bank, the government bank will change the lower two branch levels of the People's Bank into the lower levels of the government bank, and will also select some of the cadres from the People's Bank main office and branches to form the government bank's provincial, municipal and regional

branches and main office. If the government bank does not become commercialized, and if it falls under the jurisdiction of the State Council and the Central Bank, its business activity can enter the market but will not rely on market regulation and will still develop according to state plans or state directives.

The Central Bank would thus no longer handle specific banking matters or take profit into account, and the branches below the second level would be separated and formed into branches based on province, region, city or economic zone, so that the Central Bank would be standardized and independent. At the same time, by taking this approach, the finance system can become more market-oriented and all the financial organizations (with the exception of the government bank) can enter the market. The Central Bank can thus adapt to the needs of the market economy, and use economic methods to effectively implement macroeconomic regulation.

The government must directly manage and control, and must not consider banking matters relating to profit and loss. For example, loans for purchasing staple agricultural by-products yield certain significant social benefits; its own benefits are not great, because the loan might go to an enterprise that may operate at a loss. If it were handled by a specialized bank, the results would be better.

In particular, the few large state banks can enter the market with little burden, and can compete as equals with the other domestic financial organizations and large international banks. They can make themselves into modern, extremely vital, internationally first-rate large banks and thus also push China's entire banking system toward even faster progress and become mighty pillars of the socialist market economy.

It is worthwhile to consider establishing a few more nationwide joint-stock banks when the government bank is being established, to further promote competition, advance the rapid transformation of management mechanisms in large state banks, and strengthen the vitality of China's financial institutions. This would enable cities, rural areas, foreign exchange and other spheres to become powerful and equal competitors. More financial institutions should be established and such methods as regulating taxes or interest should be employed to eliminate monopolistic profits and enable joint-stock banks to become standardized and conditional bank stock to enter the secondary markets.

**Two, change some bank loans to bank investment.**

At present, a sizeable portion of loans from the few large state banks can never be collected. Some of these uncollectible loans are bad debts whose collateral no longer exists, and they are only on the account books because the false entries have not yet been audited. Even if the losses are reported, financial departments cannot possibly allocate funds to repay these debts, and can only charge them against corresponding funds and bank loans

of their own. There are plenty of enterprises that were originally going to seek their own minimum funding needs, but because they didn't have the funding themselves, made up the difference with bank loans. As long as the enterprise still exists, this portion of the funding must be used and cannot be returned to the bank.

There are no accurate statistics on just what percentage of the loans cannot be repaid. Some estimate that the total is at least 40 percent. Since this is a burden on enterprises, it is also a burden on banks. State-run enterprises not only bear the responsibility of repaying these loans to the bank, they must also pay interest. Entering the market bearing this burden and competing with private enterprises, the private sector and foreign-owned enterprises that have very few debts, from the standpoint of state-owned banks with such a large proportion of loans that cannot be recouped, it is naturally a burden to face the prospect of writing them off. If they do not solve this problem, they cannot enter the market with a light burden and compete on equal footing with the other financial institutions.

Might we consider using the following methods to solve this problem: 1. Take the loans granted to state-owned enterprises that are to become joint-stock enterprises, and change them into bank investment in the enterprises, that is change the appropriate debt vouchers for stock and change the responsible persons at the bank into stockholders, who will participate in the management and supervision of the enterprise. 2. Take the loans to enterprises that are not yet qualified but may become joint-stock enterprises in the future, and change them into transferrable bonds, that is first change them into enterprise bonds, and later change them to stocks when the joint-stock system is implemented. 3. Take the loans to enterprises that cannot become joint-stock enterprises, and change them into low-interest, long-term enterprise bonds with periodic repayment, so that each year the enterprises can take out a portion of their retained profits or use some other method to raise funds and gradually repay the money. 4. If the borrower no longer exists or if no one is responsible for repaying the loan, the amount should be verified and the bank should simply write off the loss.

In this way, both banks and enterprises can enter the market with little burden.

### **Three, accelerate development of the financial market system.**

After the large state-owned banks enter the market, all of China's finance industry activity, with the exception of the business handled by the government bank, will have entered the market and will operate according to market principles and the law of value.

While actively trying out the joint-stock system, special attention should be paid to expanding and regulating the exchange of stocks. The stock market currently has quite a few problems that should be quickly resolved, and one

important point will be to research and establish equitable methods of setting starting stock prices. Stock prices set according to such methods should basically reflect the enterprise's asset situation and earning power, so that under normal conditions, buyers can earn more than the rate of interest on a bank savings account and a relatively high dividend. It is all right for certain enterprises that have developed very quickly or who have very high profits to issue more dividends. However, the situation of earning several times or even tens of times the original amount must be changed.

The stock market is currently bearish, and stock prices are falling drastically, but some stock prices are still tens of times greater than their original starting price. With such huge profits from stocks bought at their original price, how can a buying rush be avoided, and how can qualified but lawless people be prevented from going through the back door to buy stocks? Setting management practices, legislation and other work is very important, and must be emphasized; but if the problem of equitable setting of original stock prices is not solved first, even if there is a system of regulations, the current chaotic issuing situation and its accompanying problems cannot be overcome. The most important thing is, if the problem of equitable originating stock prices is not solved, those who buy the original stock will earn excessive profit, which will lead to polarization and will undoubtedly cause the people to misunderstand the joint-stock system, and which will be harmful to the trying out of the joint-stock system and the development of the stock market.

### **Four, open up exchange rates to pave the way and better enter the international financial market.**

Open up exchange rates, not only because foreign exchange is a type of commodity and needs to be exchanged on the market, but also because this can lead to more unimpeded foreign economic exchanges for China. At present, China has the basic conditions for opening up exchange rates. These conditions are: China's current foreign exchange list prices are very close to foreign exchange market prices. Opening up exchange rates will not cause great impact. China's foreign exchange reserves are currently rather large, to the extent that if there is some impact that strikes at foreign exchange, it can be withstood. The most significant point is that even from the standpoint of foreign exchange supply and demand, China's current foreign exchange list price has raised the valuation of the renminbi and has thus caused the market exchange rates to be higher than the state list price. But from the standpoint of parity of purchasing power, the renminbi has been undervalued against foreign exchange, and many sources have shown that the purchasing power of one yuan of renminbi is roughly equal to the purchasing power of one U.S. dollar. Such high purchasing power of the renminbi can fundamentally ensure that after the renminbi exchange rate is opened up, it will not be greatly devalued as a result. On the contrary, after complete opening up, the renminbi exchange rate may grow from the foundation of the

current list price, so that one yuan of renminbi can be converted to even more foreign exchange. To be safer, we can observe for a period, and if these conditions have come together and have shown development, then the renminbi exchange rate can be opened up.

While this is going on, regulations that prohibit renminbi from leaving the country should be eliminated, allowing renminbi to enter the international market. In recent years, some areas have started to use renminbi in border trade, renminbi has already left the country, and in some countries it is held in very high regard. In reality, the regulations that prohibit renminbi from leaving the country have already been breached. Experience has shown that there are the following benefits to renminbi leaving the country: 1. The amount of renminbi leaving the country is equal to the amount of funds being raised cost-free from the international market. If we spend a great deal to use foreign exchange, why can't we use the approach of having renminbi leave the country to raise some funds? 2. It will make China's foreign trade and other international economic dealings easier, especially border trade. In the past, we have suffered losses because we have inappropriately used currency in our international economic dealings, so if we use renminbi, the currency we have the most confidence in and are most familiar with, it will definitely be more convenient and safer for international trade or other foreign economic dealings. 3. The ability to raise China's international stature, allow renminbi to leave the country and have the renminbi become an international currency will symbolize growth in China's political and economic stature. We must not abandon such a strategic economic measure as allowing renminbi to leave the country just because there is a bit of risk.

#### **Five, change bank mechanisms for macroeconomic regulation.**

After the socialist market economy is established, the role of banks in macroeconomic regulation will become greater. Fair competition and equal exchange are characteristics of a market economy. Commodity exchange must go through the medium of currency. In reality, commodity exchange is first manifested as an exchange of commodities and currency. Banks can carry out macroeconomic adjustment most effectively by increasing and decreasing loans and expanding and contracting the currency supply. If bank loans and the currency supply contract, then production, construction and the size of the market will naturally contract; if bank loans and the currency supply expand, then production, construction and the size of the market will expand.

Banks must carry out macroeconomic adjustment to the extent that they effectively control and help enliven microeconomics and the development of the socialist market economy. This must involve implementing adjustments to the current directive-based planning or so-called regulations on scope and quotas, and change to a basic mechanism that uses economic means. After implementing the above reform measures, with the

exception of the government bank's business, the Central Bank's funding needs from financial institutions (including all of the large state-run banks) will have the conditions for regulation through economic means. Because all financial institutions will be commercialized, making increased profit the primary goal of business activity and using economic means to implement regulation will certainly be more effective than the current administrative means of implementing regulation. In other words, allowing large state-run banks to commercialize and enter the market not only will not diminish macroeconomic regulation, but can strengthen it.

Of course, this approach can only happen after the government bank is established, after all of the large state-run banks become commercialized, and after the entire socialist market economy is basically established, not now.

Controlling the scope of bank loans is not an ideal approach, but it is an interim approach while economic regulation has not yet achieved the projected results. In other words, it is "a way when there is no other way." However, the conditions do not yet exist to eliminate this method of control. Under the current situation of very vigorous construction but an absence of self-restricting mechanisms in the area of funding needs, if the method of controlling the scope is abandoned, it will mean relinquishing control and the currency supply will increase, which may lead to inflation.

#### **Shanghai Specialized Banks To Become Commercial Banks**

*HK2202051493 Beijing ZHONGGUO XINWEN SHE  
in Chinese 1500 GMT 14 Feb 93*

[Report by correspondents Ren Xiaobing (0117 2556 0393) and Ying Junhui (2019 0193 1920): "Three Specialized Banks in Shanghai Begin Preparations for Transforming Themselves Into State-Owned Commercial Banks"]

[Text] Shanghai, 14 Feb (ZHONGGUO XINWEN SHE)—The specialized state banks in Shanghai are going to gradually become state-owned commercial banks. This is the message that has been given by the work meetings successively held by the Shanghai branches of the Bank of China, the Construction Bank, and the Industrial and Commercial Bank.

As the Shanghai economy has been continuously growing at a high rate this year, various banks, while making great efforts to absorb deposits, have to control loans according to the plans, lower loan risks, and raise the proportion of secured loans. The Bank of China in Shanghai allocated 100 million yuan as a special fund for offering loans to projects in Pudong. The responsible official of the headquarters of the Bank of China will also lead a delegation of the Bank of China Group in Hong Kong and Macao to visit Shanghai, and they will discuss ways to support construction projects in Pudong on a larger scale with the Shanghai municipal leaders. The



Construction Bank in Shanghai will continue to offer 6 billion yuan of loans and other forms of financial support to the inner belt way project, the second-phase Bund transformation project, the Yangpu Bridge project, the Waigaoqiao Power Plant project in Pudong, and the harbor construction project. This bank will also offer a foreign currency loan amounting to more than \$170 million to the third-phase construction project in the Baoshan Iron and Steel complex. The Shanghai Industrial and Commercial Bank planned to make loans totalling 9 billion yuan this year, and most of the loans will be offered to technological transformation, technology development, commercial facilities construction projects and to the industries adopting high and new technology. These banks will adopt the assets and risks management methods commonly adopted in the world on a trial basis. They will reduce the proportion of unsecured loans and will gradually increase secured and mortgage loans. Small and medium enterprises and even individually run businesses that have good business results and liquidity can obtain secured loans from the Industrial and Commercial Bank. The bank will also speed up the process of setting up loan guarantee funds for industries with higher risks.

The banks also attach great importance to breaking new ground in international finance. The Bank of China, which has specialized in foreign currency dealings and finances related to foreign trade, will continue to arrange the proper use of the \$240 million foreign government loans and will particularly strengthen cooperation with the Bank of China Group in Hong Kong and Macao and with overseas banks. The Shanghai Construction Bank will actively involve itself in loan business transferred from the World Bank and has embarked on setting up joint ventures with foreign banks. The Shanghai Industrial and Commercial Bank has also undertaken loans transferred from the World Bank and the Asian Development Bank.

Shanghai's economic development has set forth new requirements for financial services, and the overlapping of various banks' business activities has also intensified competition between banks. This year, various banks will make greater efforts to diversify their assets and will involve themselves in business fields such as trust and investment, real estate, securities, and information and consulting services in an effort to adapt themselves to the new situation. The Shanghai Bank of China is preparing to found a credit card company, an insurance company, and an airplane leasing company. The Construction Bank is preparing to found an insurance company and a joint foundation company. Modern operation and service means will be adopted more extensively. The Construction Bank is preparing the founding of a computer company in Pudong.

Banks are transforming their internal operational mechanisms in light of the requirements of enterprise operations. The settling, bookkeeping, and accounting systems and the employee income distribution system will be

reformed. The credit-line management system will gradually be replaced with the loan proportion management system. Thus, various banks will gradually achieve the reform target of "operating on their own, undertaking business risks on their own, exercising self-control, bearing responsibility for their own profits and losses, and engaging in self-development."

## TRANSPORTATION

### Construction of Beijing-Kowloon Railway Begins

OW2002120493 Beijing XINHUA in English  
1109 GMT 20 Feb 93

[Text] Beijing, February 20 (XINHUA)—China today formally started construction on the Beijing-Kowloon railway, the longest railroad requiring the largest investment ever attempted in China.

The government plans to complete the 2,370-kilometer-long Beijing-Shenzhen section of the railway in 1995 and complete the final Shenzhen-Kowloon section after sovereignty over Hong Kong reverts to China in 1997.

Construction on the railway, with a total investment of 21 billion yuan (some 3.62 billion U.S. dollars), followed today's founding of the Beijing-Kowloon railway construction headquarters of the State Council.

The railway is to run between the Beijing-Shanghai railway and the Beijing-Guangzhou railway, and will cross nine provinces and municipalities, including Anhui and Jiangxi Provinces.

It will also connect several major East-West railway lines, which include the Beijing-Baotou railway and Beijing-Qinhuangdao railway in the North, the Lianyungang-Lanzhou railway in central China and the Hangzhou-Zhuzhou railway in the southeastern China.

Experts say construction of the railway will greatly ease congestion in North-South transportation, quicken the opening to the outside world of the coastal regions and East China, speed up the development of mountainous areas along the railway, and help maintain the prosperity and stability of the Hong Kong-Macao region.

The railway will also run across various rivers, including the Yellow River and the Yangtze, and vast mountainous regions. Five extensive bridges and two tunnels at least three kilometers long will also be built. The amount of work involved is unprecedented.

The central government will provide the major part of the total investment for the construction. The remainder will be provided by the concerned local provinces, as part of the government's ongoing drive to decentralize transportation construction and financing.

### Hubei Plans To Build Expressways Over Three Years

HK2002074093 Wuhan Hubei People's Radio Network in Mandarin 1000 GMT 13 Feb 93

[Text] Outlines for the high-grade highways the province plans to build from 1993 to 1995 have been drawn up, of which four first-grade auto highways will be built within this period with a total length of 819 km, comprising the Hankou-Laohekou expressway, the Xinguang first-grade auto highway, the (Huashi)-(Huamen) first-grade auto highway, and the river section of the (Yihuang) highway. First-grade highways to be built at the same time comprise the Xiangfan-Shashi, Wuhan-Huangzhou, Heshengqiao-Xianning, and (Xiezidun)-(Xiaoshikou) highways, with a total length of 339 km. Moreover, construction projects matching and supporting these high-grade highways include the (Jinsha) section of the Changjiang Bridge, the Yichang section of the Changjiang Bridge, the three Wuhan sections of the Changjiang Bridge, the Yuekou section of the Hanjiang Bridge, the Hanjiang section of the Hanjiang Bridge, the Caidian section of the Hanjiang Bridge, and the (Sanjiangkou) section of the Hanjiang Bridge.

### Passenger Trains' Quality, Speed To Increase

93CE0264A Beijing JINGJI CANKAO BAO in Chinese 24 Dec 92 p 1

[Report by reporter Yao Jun (1202 6511): "China Will Speed Up Train Operations"]

[Text] According to information obtained from the Ministry of Railways, beginning 1 April 1993, the ministry will speed up all train operations to meet the requirements of fast economic development. At that time, more passenger and freight trains will be put into operation, and the average train speed will be increased. New schedules have been worked out for this purpose.

According to the new passenger train schedule, 1,084.5 pairs of trains will run on the nation's railways beginning 1 April next year. This exceeds the present number by 32 pairs. Among the additional trains, nine pairs are special expresses running on lines under different railway bureaus, and 28 pairs are through passenger expresses. Of the additional special express pairs, one pair is a nonstop special express train between Beijing and Guangzhou; the other eight pairs are special expresses converted from current through-express pairs. Twenty-two pairs of regular through trains will be converted into through express. Fourteen pairs of passenger through trains will change their departure and destination points. To improve the accommodations for long-distance passengers, the new schedule will have a pair of all-sleeping-car through special expresses on each of the three trunk lines between Beijing and Shenyang, Beijing and Shanghai, Beijing and Guangzhou. In addition, there will be 19 pairs of tourist trains to meet the sightseeing needs of Chinese and foreign tourists. Inter-bureau special expresses will have an average speed of 61.2 km per

hour, or 5.4 km per hour faster than this year's speed. The quickest trains in the country, the Beijing-Shanghai nonstop special express will have an average speed of 83.6 km per hour. The running time will be shortened remarkably for special expresses from Beijing to Fuzhou, Shenyang, Harbin, Guangzhou, Chongqing, and Urumqi.

With regard to freight transportation, the new schedule will have an additional 553 pairs of freight trains in operation. Of them, 35 pairs are scheduled through trains. The average speed of freight trains will exceed 30 km per hour. Another major change in freight transportation is the adjustment of the locomotive models used for eight key sections of the nation's railways, making it possible to increase the load carried by the trains. The maximum haulage of an inter-bureau freight train running on four trunk lines, namely, the Beijing-Shanhaiguan, Beijing-Shanghai, and Beijing-Guangzhou lines and the central section of the Lanzhou-Lianyungang line, will be raised to 4,000 tonnes. This indicates that China's railway freight transportation has begun to develop toward heavy-weight haulage.

## AGRICULTURE

### Further Reform of Grain Circulation, Prices Advocated

93CE0240A Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese No 11, 11 Nov 92 pp 43-48

[Article by Wen Guifang (3306 2710 5364), Finance and Trade Economic Research Institute, Chinese Academy of Social Sciences: "Intensification of Grain Circulation and Price Reform in Accordance With the Needs of a Socialist Market Economy"]

#### [Text] 1. Current Grain Circulation and Price System Fails To Meet Needs for Development of Market Economy

First of all, grain is not truly or completely regarded conceptually as a commodity, but is controlled as a "special" commodity. Both the procurement price and the amount of procurement are directed in the implementation of policy. In their role as producers, the peasants have lost all decision making authority in these regards. Administratively, grain is regarded as a "major welfare" commodity supplied to city and town residents for which a low price policy has been in effect for a long time. Not only does this abet enormous waste in grain consumption, but it also suppresses a rise in procurement prices as well as distorts the equal position in commodity exchange of peasants as producers and city and town residents as consumers.

Second, in the reform process, grain reform has not been coordinated with reform of other agricultural products. Today, prices of an overwhelming majority of agricultural products have been decontrolled and are left to market regulation, but a small number of agricultural



products such as grain continue to be regulated mostly by plan. The result is that grain cannot compete in the market on an equal footing with other agricultural products, and thus it is at a disadvantage.

Finally, numerous problems exist with regard to circulation, both in the procurement and marketing system, and in the administration and management system.

In the procurement system, after the institution of the family output-related contract responsibility system, the peasants have the right to make up their own minds about production, but by no means do they have full decision making authority about sales. The conflict between autonomous production and monopoly procurement is extremely pronounced. Prices play an ever increasing role in guiding peasant production, but plan procurement prices are too low, and the market price frequently fluctuates. This makes it difficult for the peasants to obtain accurate price information, which is the main reason for the cyclical fluctuations in grain production. Under the financial system of dividing revenues and expenditures between the central and local governments and holding each responsible for balancing its own budget, conflict exists between command style procurement, marketing, allocation, and the government financial contracting system. Because of their separate interests, regions also set up barriers thereby miming without completely killing each other (the peasants not fulfilling their sales quotas according to contract).

Despite various efforts at reform of centralized procurement and marketing in the sale of grain, the result is that fixed procurement has changed to command style contracts; commissioned agent procurement has turned into assigned procurement at an additional price; and free purchases and sales have shriveled as a result of the mark up at every level, or else they have been entirely choked off by the local barriers one area has set up against another.

In the organization of circulation, unified standards are lacking. The degree of risk in grain circulation and prices are very great. Once fairly large fluctuations occur in supply and demand, a difficulty buying and difficulty selling phenomenon recurs in which grain cannot be bought, kept, or shipped (when grain is plentiful, it cannot be shipped; when it is scarce, it may not be touched), and conflicts between one region and another remain unresolved.

## **2. Need To Hasten the Pace of Grain Administration and Price Reform in View of the Need To Develop a Market Economy**

After more than a decade of reform, prices of most agricultural products are decontrolled and regulated by the market now, but grain remains under strict control of the state plan. Statistics show that 52.2 percent of all agricultural products that peasants sold in 1990 were market controlled, but that approximately 32 percent of grain remains under state plan procurement and plan

pricing today, and that the peasants directly sold to markets only approximately 10 percent.

In the sale of grain, the percentage that the state sells at a fixed price remains relatively large. Neither grain producers nor grain dealers are anywhere near completing the change to a position as commodity producers and dealers. Consequently, the clamor for decontrol of the grain administration and pricing system, allowing producers and dealers to become truly and fully commodity producers and dealers, is becoming louder and louder. Commercialization of grain production and leaving grain dealings and pricing to the market is imperative. The necessity is as follows:

First, the commercialization of grain production, leaving dealings and pricing to the market is an objective requirement in the development of a socialist market economy.

Three things are necessary for the development of a socialist market economy. First is putting all production and administrative activities in the commodity economy so that they are consistent with the objective laws of a commodity economy. Second is applying and improving the role of the market mechanism. Third is the fostering of markets for the building of a unified market system. Judged in these terms, China's grain production and dealings at the present stage is still a very long way from meeting requirements for development of a socialist market economy. On the one hand, a considerable gap still remains in changing the price formation mechanism, in the procurement and marketing system, and in the fostering of the market system, as well as in the grain enterprise administration and control system. On the other hand, after more than a decade of reform, very great changes have taken place in some of the economic environment and requirements on which grain circulation and price movements depend: First, the advent of the family output-related contract responsibility system, which marked the peasants emergence as relatively independent commodity producers and dealers requires that commodity exchange be done in accordance with the principle of equal value. Second is the consecutive year bumper harvests, in China, the ample reserves, and the stability of prices, plus advances in building markets, all of which lay a definite material foundation for the commercialization of grain production, and the leaving of grain dealings and prices to the market. Third, to a large extent, China's industry has the economic basis and the energy needed for its own development. The time of reliance on agriculture to supply accumulations for the development of industry should be brought to a close. The narrowing of the "price scissors" should be used to enhance agriculture's own accumulations mechanism in order to accelerate the development of agriculture. Fourth, some fairly large steps are about to be taken in urban economic reform and the degree of opening to the outside world will also widen. Specifically, China's GATT position is about to be recovered, bringing an improvement in ties with international markets. All of

the foregoing necessitates an acceleration of grain circulation and price reform, grain dealings and prices being decontrolled as quickly as possible. As an important commodity having a bearing on the national economy, grain plays a crucial role in development of the agricultural commodity economy. Unless grain production is commercialized, and grain dealings and prices are left to the market, the commercialization of agricultural production and the leaving of agricultural product dealings and prices to the market will not be finally possible.

Second, a matter of even greater importance resulting from the decontrol of grain dealings and prices is that grain producers will be able to participate in market competition as autonomous commodity producers and operators in a change from their longstanding distorted condition in commodity economy activities. Despite the very great changes that have taken place in the status of peasants as commodity producers as a result of 13 years of reform, the status of peasants as grain producers has not fundamentally changed. By comparison with other agricultural product producers, their decision making authority is relatively small. This is particularly the case regarding prices. Someone estimated that the state fixed procurement price for grain today is about 30 percent lower than its value. (Footnote 1) (See Xia Yongxiang [1115 3057 4382] "The Price Problem Is the Main Factor Limiting Development of China's Grain Production," ZHONGGUO NONGCUN JINGJI [CHINA'S RURAL ECONOMY] No 11, 1991.) Because of the too low grain price, prices of the agricultural means of production rise more rapidly than the price of grain. The widening of the price scissors and the decline of peasant income in recent years has created an abnormal situation of reduced earnings from increased grain production. If this continues, a new round of faltering in production will be difficult to avoid. Ensuring steady and sustained increase in grain production requires not only increasing the plan procurement price for grain, but even more importantly, decontrolling prices once the conditions exist to do so.

Third, decontrol of grain administration and prices also has the following positive roles. First, it can rectify the distorted prices and the attendant price parities, making the agricultural price structure more rational. Second, it helps promote a readjustment of the agricultural production structure. Decontrol of grain administration and prices will result, as is the case for other products, in decisions and choices based on market testing as to whether they meet social needs; price changes will guide producers to produce in accordance with market demand, thereby finally bringing about a readjustment of the production structure. The reality is that conflicts between grain supply and demand of a structural nature are fairly prominent today, and this results from the low degree to which production is commercialized and grain dealings and prices are left to the market. Currently an overwhelming majority of the grain sold at parity prices comes from fixed contract procurement. Grain growing peasants have no authority to set the prices of this

portion of grain; they are powerless to change its low price. However, they do have the right to decide what they will grow. They can meet fixed procurement quotas by growing many grain varieties that produce high yields but poor quality. Although the state holds the power to set prices and the amount of fixed procurement, it cannot control what the peasants can and cannot grow. It can only purchase whatever the peasants have to offer. Virtually all of the grain varieties covered by fixed contract procurement quotas are of poor quality. In Guangdong Province, where grain dealings and prices have been decontrolled, guided by the market, peasants are moving toward a "high yield, premium quality, highly efficient" kind of agriculture, the area sown to long grain nonglutinous rice having increased by more than 4 million mu since decontrol. The role of prices in changing the make-up of grain production has begun to appear. In places where grain dealings and prices have not been decontrolled, however, changing the make-up of agricultural production is very difficult. In Zhejiang Province, for example, 4 billion kilograms of early crop short grain rice was stored in granaries in 1991, two-thirds of it an over supply that could not be sold, yet the peasants continued to grow it. (Footnote 2) (See NONGCUN JINGJI YANJIU CANKAO [RURAL ECONOMIC RESEARCH REFERENCE] No 11, 1992.) Third, it helps reduce fiscal subsidies. In 1991, state financial subsidization of grain prices and grain enterprise administrative expenses amounted to nearly 50 billion yuan. In 1992, after another rise in the sale price resulting from sales at the procurement price, a subsidy of 0.40 yuan per kilogram of grain sold was still required. The fiscal burden continued very heavy. By decontrolling grain dealings and prices, such government subsidies would be greatly lightened. Fourth, it helps invigorate state-owned grain enterprises. One of the main reasons that state-owned grain enterprises are not doing a lively business and returns are low today is the longstanding inversion between grain procurement and sale prices. The state is unable to subsidize fully and in a timely fashion operating losses stemming from policies, thereby causing a year-by-year increase in the charging of enterprise subsidies to account. In 1991, cumulative charges to account totaled more than 40 billion yuan, and the use of this money for a year alone required the payment of more than 3 billion yuan in interest. Only the decontrol of grain dealings and prices, allowing enterprises truly to become independent and self-reliant commodity producers responsible for their own profits and losses, and that develop themselves and impose limits on themselves can solve this state of affairs.

### 3. Feasibility of Decontrolling Grain Dealings and Prices by the End of the Eighth Five-Year Plan

#### (1) Meaning of Decontrol

Before discussing the feasibility of decontrolling grain dealings and prices before the end of the Eighth Five-Year Plan, the meaning of "decontrol" must be defined.

1. So-called decontrol includes decontrol of both dealings and prices. Decontrol of dealings means demolishing the monopoly position of state-owned grain enterprises over grain dealings for a pluralization of grain circulation channels and operating entities. Also needed is reform of state cooperative grain enterprises to enable them better to play a role as main entities in grain circulation. In addition, while decontrolling dealings, the state must continue to maintain a firm grip on wholesale operations in order to be in position to regulate and control market price stability.

Decontrol of prices means discontinuance of state price fixing, allowing prices to be formed through market dealings. This is important in making grain producers and dealers truly become commodity producers and dealers and main interest entities. Once prices have been decontrolled, so long as the state and the peasants truly practice exchange of equal value so as to assure that the state has a steady supply of a certain amount of grain at its disposal, fixed contract procurement from peasants may continue.

2. Decontrol does not at all mean that the state or government washes its hands of grain production or dealings. For the state or government, it means removal of direct state or government microeconomic control over the shaping of prices, returning to grain producers and dealers the authority to make their own grain production and administrative decisions (including price authority) for better use of the role of the market mechanism. However, since grain production and dealings hold an extremely important position and role in the national economy, once circulation and prices have been decontrolled, regulation entirely by market forces frequently opens the way to fairly large fluctuations that hurt the national economy, the people's livelihood, and grain production, thereby necessitating state macroeconomic guidance and regulation. This means a continuing need for indirect regulation, control and guidance of grain production and circulation using economic, legal, and administrative measures, and exercising needed control over market trading activity.

#### (2) Analysis of the Feasibility of Grain Dealing and Price Decontrol by the End of the Eighth Five-Year Plan

Decontrol of grain prices by the end of the Eighth Five-Year Plan will not be determined by subjective desires but by the existence of conditions for decontrol. Decontrol of grain prices will depend on the supply and

demand situation, the tolerance of city and town residents, the extent to which markets are developed, and state macroeconomic regulation and control capabilities. Space limitations permit only a little analysis of the supply and demand situation, the tolerance of city and town residents, and state macroeconomic regulation and control capabilities.

#### 1. The Grain Supply and Demand Situation

Generally speaking, little leeway exists between supply and demand, but prospects for improvement during the 1990's are very good. During the 39 years from 1950 to 1988, China had a balance between grain production and marketing approximately one-third of the time, and a shortfall approximately two-thirds of the time. In most years, it depended on imports or other means (such as dipping into reserves) to remedy the shortfall. However, since the beginning of the 1990's, bumper harvests have been brought in for two years in a row. Not only is the supply and demand for grain in balance, but a slight surplus exists for a new situation in which supply exceeds demand.

First, since 1989, supply has been greater than demand for three consecutive years. See Table 1 for particulars:

Table 1. Unit: 10,000 Tons

Year	1989	1990	1991
Annual Output	40,755	44,624	43,524
Domestic Demand	40,278	41,513	42,342 (estimated)

Second, marked improvement has also occurred in the regional imbalance between production and sales. The number of provinces in which supply was greater than demand fell from one-half in 1989 to only one-third in 1990. Furthermore, a trend toward greater emphasis on grain in a quest for self-sufficiency is taking place in some grain-importing areas. Judged in economic terms, these methods may not be entirely rational; however, given a situation of poorly developed markets and impediments to circulation, they play a positive role in balancing supply and demand.

Third is ample grain reserves, which exceed normal bounds to a substantial degree. Please see Table 2 for particulars:

Table 2. China's Grain Reserves Unit: 10,000 Tons

Year	1986	1987	1988	1989	1990
Year-end Reserve	33,599	36,309	37,956	41,701	49,091
Number of Months Supply at Current Year Consumption	9.8	10.6	11.1	12.4	14.2

Source of Above Data: Pertinent data from State Statistical Bureau



Estimates of the State Statistical Bureau unit concerned call for a continued balance or a surplus in total supply and demand in China for the next 10 years. On the supply side, the cultivated land area has decreased by more an average more than 330,000 hectares per year since 1980, but the reclamation of barren land suitable for agriculture, and increase in the multiple cropping index have made up for part of the decrease in cultivated land, thereby maintaining the average level of the Seventh Five-Year Plan. On the one hand, more has been done to improve the more than two-thirds of this land that produces intermediate or low yields (two-thirds of the current 95.333 million hectares of cultivated land is intermediate and low yield fields producing less than 2,625 kilograms of grain per hectare. If improvement can raise the yield to 3,900 kilograms per hectare, that will increase grain output by more than 120 billion kilograms). On the other hand, the vigorous spread of science and technology can maintain the speed of increase in grain yields at the level of the Seventh Five-Year Plan (an average annual increase of 1.6 percent). Thus, there are two possible trends for grain production during the next decade: One is an optimistic estimate, i.e., maintenance of the grain growing area at the average level of the 1980's (an average of 112 million hectares per year), and maintaining yield increases at the average speed of the Seventh Five-Year Plan (an average 1.6 percent per year). An alternative estimate envisions some leeway, i.e., the grain growing area remaining at the average level during the Seventh Five-Year Plan (an average 111 million hectares), and yields increasing by 1.4 percent per year. That would mean a possible grain output of between 470 million and 477 million tons during the Eighth Five-Year Plan, and between 500 million and 520 million tons in 2000.

On the demand side, not counting exports, the amount of demand for grain will depend mostly on total population and per capita grain consumption. This may be figured two ways: One is that for the next 10 years grain consumption will remain at the average level of the 1980s (a 1.48 percent natural rate of population increase, per capita grain consumption increasing 1.5 percent per year as calculated by the accumulation method). Alternatively is an average annual 0.5 percent increase above the average annual consumption level for the 1980s, the natural rate of population increase remaining at the 1.439 percent level of 1990, China's grain consumption reaching between 450 million and 460 million tons by the end of the Eighth Five-Year Plan, and between 480 million and 510 million tons by 2000.

In addition, development of animal husbandry and the aquatic products industry can increase the supply of livestock products and aquatic products thereby decreasing demand for grain. Prospects are also bright in this regard. (Footnote 3) (See Min Yaoliang [7036 5069 5328] "Intensify Rural Reform and Do More To Develop Reserve Strength To Ensure That Agriculture Takes a New Step Upward," JINGJI YANJIU CANKAO [ECONOMIC RESEARCH REFERENCE]

No 1, 1992.) On the basis of the foregoing analytical forecast, one should say that achievement of the overall balance between supply and demand of at least the Eighth Five-Year Plan will not be a problem during the next decade.

## 2. The Tolerance of City and Town Residents

I believe that city and town residents will be able to tolerate decontrol of grain prices so long as balance between grain supply and demand can be substantially maintained:

(1) Since the late 1980s, with the solving of the problem of sufficient food and clothing for the populace, city and town resident grain consumption has entered a period of relative stability (the direct amount of grain consumption per capita calculated by the accumulation method increasing at 3 percent per year between 1980 and 1985, and falling by 0.9 percent per year between 1985 and 1990, direct grain consumption in 1990 falling to 280 kilograms per capita from the 290 kilograms of 1986). Estimates called for gentle decline during the Eighth Five-Year Plan. Furthermore, city and town residents expenditures for directly consumed grain today are a very small percentage of their income amounting to approximately 6 percent. Once grain dealings and prices have been decontrolled, thanks to the decline in consumption, even should prices rise, the increase in expenditures will not be too great.

(2) Urban and town resident tolerance is principally economic tolerance, and economic tolerance is determined largely by the increase in city and town residents' income. Statistics show not only that city and town residents' earnings increased tremendously during the 1984-1988 period of high speed development of the national economy, but that city and town residents gained substantial benefits during the three years of improving the economic environment and rectifying the economic order as well. In 1990, for example, city and town residents' actual per capita income used to meet living expenses increased 5.2 percent over 1988. During this same period, city and town resident's savings deposits increased by 323.3 billion yuan in an average 36 percent per year increase. In 1991, nationwide city and town resident's income for living expenses was 1,570 yuan per capita, up 13.2 percent over 1990. After deducting price increases for daily necessities, the actual increase was 7.7 percent. City and town residents' savings exceeded 500 billion yuan. This shows a rise in city and town resident's ability to pay. The future institution of wage reforms, and the building and normal operation of the regular wage increase mechanism and the wage compensation mechanism will provide powerful support for the decontrol of grain dealings and prices.

(3) Actually, no longer do city and town residents purchase their grain rations entirely from grain shops at the parity price; the amount they purchase at a higher price from markets is gradually rising. Following the reform that made the procurement and sale price the same, in

particular, the further narrowing of the difference between parity price and market price has meant that city and town residents buy more of their grain from markets. An example is Hainan Province, which took the lead in making procurement and sale prices identical, where the amount of grain that the market regulated in that same year increased from 36 to 56 percent of consumption. Furthermore, following another increase in the city and town resident grain supply on 1 April, state-owned grain supply system sales volume declined between 40 and 50 percent. It is estimated that future sales volume will amount to only 70 percent of the pre-price adjustment figure. In coastal areas today, virtually 50 percent of grain sales are market-regulated, and in some cases the amount is 70 to 80 percent. (Footnote 4) (See JINGJI RIBAO 6 July 92.) In addition, as of now grain prices have been completely decontrolled in 228 counties in 13 provinces. (Footnote 5) (See JINGJI RIBAO 11 July 92.) This will lay a foundation and gain experience for the decontrol of grain prices at the end of the Eighth Five-Year Plan.

### 3. State Macroeconomic Regulation and Control Capabilities

After the removal of direct administrative control over grain circulation and prices, will the state (or government) be able to regulate grain production and grain dealings macroeconomically? Our reply to this is affirmative.

First, the state holds the macroeconomic means for regulating and controlling the market. It can use the regulation of funds and grain reserves and control over wholesaling, having state grain regulatory agencies buy and sell grain to regulate market supply and demand, thereby maintaining balance in order to guard against large ups and downs in market prices.

Second, the state can use command-style directives and agreements with peasants to stabilize the grain growing area, and it can employ protection prices to protect the interests of grain producers for steady increase in the supply of grain.

Third, by increasing investment, the state can increase the building of agricultural infrastructure, and increase the reserve strength of agriculture and its ability to withstand natural disasters; it can develop science and technology to increase the grain labor productivity rate; and it can strictly control expansion of land use for nonagricultural purposes and encourage peasants to reclaim wasteland to make fields in order to stabilize the cultivated land area and promote increased grain output.

Furthermore, the country presently has a rather ample source of grain that can be used as a material basis for regulating and controlling markets. According to the provisions of United Nations Food and Agriculture Organization *International Agreement on World Grain Safety*, which was passed in November 1974, the minimum world grain safety level should be between 17 and 18 percent of world annual consumption, i.e., the

amount consumed in two months, and a country's insurance reserve of grain should be sufficient to supply grain rations for between three and four months. At this rate, figuring grain consumption at 400 billion kilograms for a population of 1.1 billion, China's minimum safe reserve should be 72 million kilograms, and its insurance reserve should be between 100 million and 130 million kilograms. However, figured at 1,200 kilograms of commodity grain, the minimum safe reserve is only 22 billion kilograms, the insurance reserve is also only between 30 billion and 40 billion kilograms. This means, that by maintaining reserves on this scale, it will be possible to ensure state needs for macroeconomic regulation and control of the grain market. Actually, however, as Table 2 shows, China's year end grain reserve since 1986 has always been sufficient for between 10 and 14 months consumption (at the amount of consumption for each year). Clearly, for the near future at least during the Eighth Five-Year Plan, China has the material basis for regulating and controlling the grain market.

The foregoing analysis alone shows that decontrol of grain dealings and prices is feasible at the end of the Eighth Five-Year Plan, or early on in the Eighth Five-Year Plan.

### 4. Preparatory Work Required for Decontrol

To decontrol grain dealings and prices smoothly at the end of the Eighth Five-Year Plan or the beginning of the Ninth Five-Year Plan, preparations must begin now for the commercialization of production and to make dealings and prices responsive to the market.

First is continued increase in prices, decrease in procurement, and curtailment of sales.

First, sales must be curtailed. On the basis of the current actual level of city and town residents grain consumption (statistics show a consumption of approximately 11 kilograms per person per month), the current 15 kilograms per person per month ration can be reduced to between 11 and 12 kilograms. Second, this figure may be used as the basis for reducing the amount of fixed procurement (between approximately 7.5 and 10 billion kilograms), and expanding the scale of negotiated price procurement and marketing. Finally is an increase in the procurement price of fixed procurement grain and the sale price of parity price grain. The foregoing measures will eliminate the inversion between the amount of procurement and sales at the end of the Eighth Five-Year Plan or at the beginning of the Ninth Five-Year Plan to bring the fixed contract procurement price in line with the market price and making the sale price higher than the procurement price. This is to be followed by negotiated price procurement and sales and the elimination of parity price fixed contract procurement and parity price grain rations, simultaneously eliminating all direct state subsidization of grain dealings.

Second is the fostering of markets for unimpeded grain circulation.

Plans should be drawn up for the development of grain markets on the basis of a summarization of experiences,

nationwide and local grain wholesale markets built and improved in a planned way that standardizes the business activities of primary markets and country fair markets. While gradually developing intermediate term and long term grain trading, futures trading should also be looked at with a view toward the preliminary building of a level-by-level, nationwide grain market system centering around national wholesale markets within three to four years. In addition, a grain procurement and marketing, price information, and consulting services system and attendant regulations should be built in the development of contacts among markets of all kinds.

Third is the establishment of a macroeconomic regulation and control system to improve the state's macroeconomic ability to regulate and control the grain market.

One is the establishment and perfection of a national grain reserve system, a suitable grain reserve serving as the principal means of macroeconomic regulation and control of the grain market.

Two is the founding of a grain market regulation fund to be used to subsidize storage costs for grain used for war preparation purposes and for exceptionally severe natural disasters, to pay for the renewal of national reserve grain, for adjusting supplies between bumper years and lean years, and for making up price differences to keep the market in check, as well as to subsidize the cost of large volume import regulation, etc. In addition is the formulation of an attendant management system and financial system including procedures and methods for the use and supervision of funds, spelling out the nature, sources, uses, and proposes of the fund, and management organs.

Three is accelerated building of grain storage to improve the country's grain storage facilities. In addition, close attention must be given to the repair and renovation of dangerous and old granaries.

Four in addition to influencing market supply and demand and prices through the build up or depletion of reserves, the setting of limits on economic activities such as the amount of grain that wholesale grain enterprises may stockpile, the scale of market trading, and business profits may be used to influence and regulate enterprises' business conduct, limiting both excessive competition and monopoly behavior.

Fourth is gradual elimination of the subsidization of grain circulation and consumption, and solving the current problem of charging subsidies to account. It should be noted here that the intensification of grain circulation and price reforms should make the reduction of fiscal subsidies its main task, using the subsidies thus saved for reform of grain circulation and prices, and to serve as an important means for future state indirect regulation and control of grain.

In the government subsidization of grain, the charging of subsidies to account is a financial problem that merit

serious attention and that must be solved with all possible speed. It is recommended that an announcement be made immediately freezing the charging of grain subsidies to account, no unit being permitted to make any more such charges, all such charges being halted and interest on them calculated. This should be followed by the assembling of personnel for the specific purpose of studying the charging to account problem and determining responsibility. Everyone should work on finding ways to solve the problem of charging subsidies to account when a policy reason exists for doing so; instances of improper charging to account should be resolutely pursued and eliminated. The charging to account problem should be gradually solved variously by the central government and local governments at all levels by allocating money in their annual budgets, using increases in parity grain prices and holding down sales of parity priced grain sales to increase their revenues, as well as state-owned grain enterprises at all levels developing diversification to increase income, etc.

Fifth since conditions do not currently exist for the nationwide decontrol of grain dealings and prices, more pilot projects should be run on decontrol reform to expand the scale of decontrol. In particular, places having requisite conditions should be encouraged to accelerate the pace of reform to spread it over a wide area.

#### **Chen Yaobang on Market Challenges Facing Agriculture**

*OW1202133293 Beijing XINHUA Domestic Service in Chinese 0704 GMT 12 Feb 93*

[By NONGMIN RIBAO reporter Tang Yuanjie (0781 0955 4814) and XINHUA reporter Jiao Ran (3542 3544)]

[Text] Shanghai, 12 Feb (XINHUA)—At a recent national conference of directors of agricultural departments and bureaus, Vice Minister of Agriculture Chen Yaobang said that following the development of a market economy and the deepening of reform and opening up, agriculture is facing greater difficulties and challenges, while at the same its tasks have become heavier. Therefore, to truly maintain the sustained and steady development of agricultural production, governments at all levels must handle the relationship between protecting agriculture and steering it toward the market well.

Chen Yaobang said that agriculture will face the following major challenges in entering the market: 1) Following the improvement of living standards, people are bound to demand a greater quantity of good-quality agricultural products. Therefore, demand pressure, especially on the demand for good-quality agricultural products, will increase; 2) as profit is the main concern in a market economic system, investments will certainly turn pluralistic and will be dictated by market demands. Therefore, investments in agriculture, especially in grain



and cotton production—an undertaking which is less profitable but has great social benefits—will easily and consciously be diverted to other industries with greater economic returns; 3) following the restoration of China's status as a signatory to the General Agreement on Tariffs and Trade, agriculture will face fiercer international competition. Inferior domestic agricultural products will face fierce competition from foreign agricultural products. This will make it more difficult for us to protect and develop our production. 4) The operation of a market economy requires that we steer agricultural products and peasants toward the market; but in a situation in which the new market mechanism, pricing system, and economic order are not yet fully developed, it is difficult for peasants to promptly grasp the ever-changing market information. Therefore, great fluctuations in the production and marketing of agricultural products may emerge, and successive difficulties in buying and selling grain will make it more difficult for us to adjust and guide agricultural production.

Chen Yaobang said that under the new situation, while carrying out reform agricultural departments at all levels should work harder to steadily raise agriculture's overall production capacity and to ensure the sustained, stable, and coordinated development of the farming industry as a whole, particularly grain and cotton production. Guided by market demands, agricultural departments should continue to readjust the structure of farming to ensure high-yield, high-quality, and high-efficiency in agricultural production. In giving priority to the steady development of grain and cotton, agricultural departments should actively assist counties capable of producing commercial grain and cotton. While focusing on increasing quantity and improving quality, they should vigorously develop brand-name, special, and superior agricultural products and encourage the production of agricultural products as commodities. Finally, with the support of economic entities, agricultural departments should continue to pay attention to building socialized service establishments for agriculture.

#### **Chen Yaobang on Restructuring of Crop Planting**

*OW1202143093 Beijing XINHUA Domestic Service  
in Chinese 0944 GMT 11 Feb 93*

[By reporter Li Rong (2621 2837)]

[Text] Shanghai, 11 February (XINHUA)—The nation's total grain output topped 880 billion jin in 1992, up 10 billion jin from the previous year. Under these conditions, rural areas throughout the nation generally quickened the pace of restructuring crop planting. The trend toward higher yield, better quality, and higher efficiency began to emerge in agriculture on a full scale.

When briefing a national meeting of agriculture department directors which opened here today, Vice Minister of Agriculture Chen Yaobang said: Last year the nation's planting area for cash crops followed an expansionary trend. While the national sown area for all crops dropped

to 2.23 billion mu after shrinking by more than 6 million mu from the previous year, that for cash crops expanded by over 11 million mu to reach 363 million mu. The planting area for vegetables, green manure, medicinal herbs, and other crops increased by more than 6 million mu. The proportion of cash crops in terms of planting area rose to 18 percent from 17 percent in the preceding year.

Some farm produce in high demand expanded its share of the total sown area to enjoy synchronized growth of output value as well as economic returns. Last year, the national planting area for vegetables topped 100 million mu for the first time, with special and quality vegetables enjoying an increased proportion in planting area as well as increased production efficiency, which basically ensured balanced supply throughout the year. The planting area for fruits expanded by more than 5 million mu from the previous year, with the total production volume of red Fuji apples exceeding 480,000 tonnes, which was equivalent to over 10 percent of the national apple production; and brought about a yearly increase of over 900 million yuan in economic returns. Meanwhile, in the southern region, the production of special and quality fruits developed considerably. Tea production saw a growth of over 15 percent in output value as well as improved product mix which featured a greater proportion of high- and medium-grade tea leaves. Silkworm cocoons, medicinal herbs, and other high-return agricultural products also enjoyed rapid development.

An internal readjustment of grain crops brought about an increase of varieties and strains which enjoyed good sales. Last year, the national planting area for soybeans expanded by 3 million mu, while that for broad beans, millet, buckwheat, and other minor grains outside the wheat or rice families also increased steadily. In addition, more rice, wheat, and oil-bearing crops of improved strains were grown. According to incomplete statistics compiled by Guangdong, Zhejiang, Hubei, Anhui, and two other provinces, their planting area for quality rice totaled more than 37 million mu, an increase of 17.90 million mu from the previous year. The planting area for wheat used exclusively for baking increased to 13.48 million mu, while that for "double-low" rapeseed exceeded 8 million mu after expanding from year to year. On the other hand, the national planting area for hybrid indica rice, which is relatively inferior in quality, was reduced by some 4 million mu.

Chen Yaobang also sounded an alarm bell, pointing out the need to pay attention to the question of "degree of intensity" in carrying out the restructuring. To counter the practice of "drastically cutting grain and cotton production," which has existed in quite a number of localities since the beginning of the year, he set a "security line" for the sowing area for grain and cotton, i.e. under the present overall agricultural production capacity, the planting area for grain and cotton must remain above 1.65 billion mu and around 85 million mu respectively. Should the planting area fall below this security line, the situation of production and demand for

grain and cotton is liable to take a turn for the worse, and may not be corrected within two or three years.

He said: An appropriate increase of the planting area of minor cash crops, and downward adjustment of grain and cotton crops is an important aspect in restructuring cotton planting. Should the reduction in grain and cotton production become excessive, however, it would be dangerous. Neither the stabilization of grain and cotton production nor the internal restructuring of staple crops should be overemphasized at the expense of the other.

### Problems Developing Rural Market Economy

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[Article by Zhu Tongbing (2612 0681 3521): "Issues and Recommendations for Development of a Rural Market Economy"]

[Text] Currently, throughout the whole nation, all types of industries and businesses are talking about the development of a socialist market economy. Developing a market economy has a foundation, and there are good trends, but the effort faces many difficulties and questions, which require research and resolution. We will now discuss these issues with respect to the condition of the agricultural industry in Jingmen City.

### The Good Trends

Since the latter part of last year, in the spirit of the Eighth Plenary Session of the Central Committee and the inspiration and impetus of Comrade Deng Xiaoping's southern tour speeches, there has been a clear acceleration in the speed of rural reform and development. Its characteristics include the following:

1. The contract household responsibility system related to output in a stable situation has broken through the fixed model of "a person working an average field," and has brought a whole series of corrective effects. Land has gradually been concentrated in the hands of those most capable of tilling it, promoting an appropriate scale of management of agriculture. According to a survey of the 200 villages of Jingmen City, this year there are 5,100 farming households responsible for only growing grain rations, and 7,400 households which reduced their contracted cultivated land, amounting to 28 percent of total farm households. And 28,150 households considerably expanded the scale of their land management, representing some 62 percent of the total farm households. The 15,600 households managing more than 20 mu of land was more than five times last year's total of 3,100. The accelerated circulation of land has provided an opportunity for the village's skilled craftsmen and business households to pass on land, and has promoted the development of secondary and tertiary industries in the village. For the city as a whole, besides income from grain, cotton, and oils, it is estimated that other income amounts to more than 80 percent of total household

income, and the various specialized households with a per capital net income exceeding 1,000 yuan increased from last year's 8,120 households to 117,000 people, increases respectively of 37.6 percent and 53.7 percent.

2. The pace of reform of the rural industrial structure has accelerated, and the mainstay industries are beginning to form efficiencies of scale. This year, each village and township has seized opportunities, according to the concept of "one village, one industry, one town, one product," setting things in motion, boldly reforming, and tentatively working out each characteristic. Among the 35 townships, towns, and neighborhoods of the whole city 21, or 60 percent, have one industry as primary, and of the 617 villages 154, or 25 percent, have one primary product, and are in the preliminary stages of forming a new economic structure made up of forestry, fruit, fishing, vegetable, or mushroom producing districts.

3. Reform of the agricultural product circulation system has made new progress, and merging of the agricultural-industrial-commercial, and producer-supplier-consumer organizations has emerged in keeping with current needs, with trading at rural markets unprecedentedly brisk. For the city as a whole, 50,000 peasants have entered the field of circulation, launching such activities as companies adding peasant households, bases linking peasant households, household production joint sales, point production joint sales, etc, alleviating the rural area contradiction of "difficult to buy, difficult to sell."

4. Village-run enterprises are breaking with convention, and have developed in leaps and bounds, and their collective economic strength has started to increase. Until now, in the city as a whole, the village organized more than 3,500 collective enterprises, employing some 17,000 people, 15 percent and 18 percent increases, respectively over the same period last year, with an estimated output value of more than 200 million yuan, a 14 percent increase over last year.

5. Suiting the needs of rural reform, many town and village governments are transforming their functions, cadres are shifting the battlefront, organizing large numbers of cadres to join enterprises, run entities, establish bases, run markets, and actively probe into the laws of development of commodity agriculture, and leading agricultural methods to correctly move towards transformation into a market economy.

6. Reform has promoted the development of the agricultural economy. For the city as a whole, grain production has increased for more than 10 years in succession, and this year it is estimated that overall production could reach 1.81 billion jin, an increase of 60 million jin over last year; cotton and oil-bearing crops increased by 36.7 percent and 5.7 percent, respectively, over last year; township enterprises in the first half of the year achieved sales income, and profit and tax totals that increased by 30 percent and 50 percent, respectively, over last year; other various types of economic factors exhibited a

rising trend, and it is estimated that the agricultural total output value could reach 1.23 billion yuan, an 8.7 percent increase over last year's figure of 1.14 billion. Per capita net income for farmers could increase by 50 yuan, reaching 820 yuan.

### The Problems

The formation and development of a socialist market economy has meant more and more dependence of agricultural production on the market, stronger and stronger selectivity of consumers towards agricultural products, more and more prominent contradictions in interests between government departments and farmers, and the issues which at present have already been exposed, fall primarily into the following five categories:

1. Grain prices have fallen, the prices of farmer's expenses have risen, and the resentment of farmers is substantial. This year, the early rice fixed quota price per 100 jin is 22.20 yuan, holding at basically the same as last year, while the price for consultation between buyer and seller (as opposed to the government set price) has dropped from 25.5 last year to 18, a decrease of 41.7 percent. Wheat, though the fixed price has increased to 30.20 from 24.04 last year, has seen the negotiated price drop from 37.09 last year to 30 yuan this year, a drop of 23.6 percent. After the abolition of cotton and grain price subsidies, each dan of ginned cotton was reduced by 25 yuan. While the prices of grain and cotton have fallen, the prices of the means of production have increased. Urea has increased from 876 yuan per ton last year to 980 yuan, a jump of 11.87 percent, while phosphate fertilizer has gone from 244 yuan per ton to 268 yuan, or a 9.84 percent rise. The prices of insecticides and plastic films are also up. In addition, agricultural taxes have increased by 16.54 percent, and basic water fees have grown by 30 percent. A comprehensive balancing of the books indicates that due to price factors, this year each farmer had a roughly 40 yuan reduction in income.

2. The rural market is not fully developed, there are obstacles to smooth transportation and communications, market information is ineffective, and the development of a market economy has been accompanied by a fair amount of blindness in action. Over the last several years, though there has been a rapid development of rural country trade fair markets, at present the issues of small, complete, and scattered remain. Small means that they are small in scale, the volume of transactions is small, and the radiation radius is small. Complete means that the markets seem to concentrate on agricultural products produced by farmers. Scattered means that the items involved in the transactions are piecemeal and scattered. This results in two lows. First, the market information scope of penetration function is low. Normally, one can rely on the interested parties to transmit information and their transmitting distances may be remote, but among country fairs, and regions, information flow is impeded, and price quotations vary widely. Second, the capacity stabilization function is low. At

present, it also is a relatively sealed agricultural trade system, and the great majority are only able to regulate excesses and deficiencies in their base region, and are not able over a comparatively wide range to balance supply and demand. Rural transportation conditions in the last several years have also undergone a certain improvement, but only one-fifth of villages can handle car traffic in the rain and snow, so that there are still four-fifths of village farmer produced agricultural products that sometimes have no way of getting to market. Post and telecommunications are the same. The majority of villages are without telephones, have no broadcasting capabilities, and no way to transmit market information. For this reason, no small number of rural cadre and the peasant masses often make faulty decisions in managing production.

3. Inputs have been reduced, reserves are not sufficient, and there has been slow progress in developing highly efficient agriculture. First, the state has reduced inputs to agriculture. Second, local revenues are insufficient to invest, and revenues of grain producing regions are basically in the red. Third, grains constitute the biggest pressure on funds. Fourth, the ability of farmers to input is limited. The problems of the reduction in agricultural inputs and insufficient reserves are becoming more apparent day by day. First, they force a portion of agricultural projects to be stopped, and some to slow construction, "half done" projects increase in number, the project completion rate drops, and as a result, irrigation efficiency has dropped progressively by an average of 2 percent a year. Second, there is a difference in the earning ability of township enterprises and diversified enterprises, and rural enterprises lack the vitality to let industry support agriculture. Third, development of high efficiency agriculture is slow.

4. Ministries and farmers strive for gain, while production and consumption are disjointed. State cooperative businesses conduct buying and selling by linking profit to staff wages, strengthening the internal benefit mechanisms, but in the process of buying and selling agricultural products and the means of production used by farmers, if the profit is high then this is what is purchased, or serviced, and very small consideration is given to the interests of the farmer. In the future, subject to various types of conditions of processing, storage, and protection, a large amount of agricultural product marketing will still have to rely on primary channels for completion. Yet the current system circumstances still have the agriculture departments managing production, and commercial departments managing marketing. If production and marketing continue to be separated, in pace with the continued strengthening of the interests of the departments, contradictions with the farmers' struggle to get ahead will become even more prominent.

5. Confronting the fast changing market prices, rural cadres normally feel at a loss as to what to do, and find it very difficult to adjust in a short time. For a very long period of time, we have had a planned economy, with the farmers handling planting, the state guaranteeing



income, and rural cadres fostering a habit of contracting with the village and handling local issues, urging speeding up of ploughing and speeding up of planting, and immersing themselves in production. Now, as a commodity economy is developing, agriculture is being thrust towards the market, cadres and farmers are being thrust towards the market, and from the past immersion in planting fields and handling production the emphasis is switching to raising one's head and looking at giving the market a free hand to handle circulation, and it is generally felt there are three difficulties with this: Market prices are difficult to control; consumer intentions are difficult to ascertain; and it is difficult to link up circulation and production. Both the need to be hustling in the market, and the need to grasp production, means that if one turns this way one doesn't see the other way. We have pointed out this year's autumn sowing and production must be according to market laws, using the laws of value to handle things, what the market requires to be grown should be grown, and what will make money, that is what should be planted. But what the market actually requires, how much it requires, our cadres generally feel that this question is difficult to grasp.

The problems described above have become obstacles restricting rural reform and development, and must be conscientiously solved in the process of continuing reform.

#### Suggestions

1. Integrate the importance of agriculture with how agriculture is dealt with in practice. The basic demands of rural cadres are that the state must increase agricultural inputs, change the face of rural towns, and improve transportation and communication and the daily living standards and working conditions of cadre. The farmers' demands are that the price of agricultural supplies be rational, products are not difficult to sell, that they are able to sell products at a good price, while those engaging in business want a relaxed, harmonious external environment. At the same time as the importance of agriculture is being stressed, handling things in such a way as to put peoples' minds at ease and unite them in purpose will have an even better effect. Empty talk harms the country, doing solid work will make the country flourish. This well known saying from times of peace and prosperity should be engraved in peoples' minds and not be forgotten.

2. Put the system in order, pool efforts. It is necessary to combine the forces of agricultural and commercial departments, and organize a new system that is appropriate for the development of a market economy. At present, the agricultural departments which oversee production have a science and technology contingent with a comparatively solid technical capability, with the advantage of being able to technically develop commodity production. The state cooperative businesses that handle circulation have a buying and selling contingent, and buying and selling network points which are found everywhere in cities and towns, which also have rich

experience getting out well-informed market information, possess storage conditions, have comparatively strong transportation capabilities, and have methods for circulating agricultural products. Provided these two departments are combined, and agricultural products sales companies are formed, internally linking peasant households, and externally joining markets, implementing economic management through setting up production, supply, processing and consumer enterprises, it will be possible to effectively solve the struggle of interest between the departments and the peasants, and the contradictions between disjointed production and circulation. The country's agricultural and commercial departments must, in accordance with a socialist market economy, objectively require and consider the organization of an agricultural system that integrates production, supply and consumption.

3. Increase inputs, strengthen key sectors. When it comes to investment in agriculture, the state must maintain a suitable proportion of growth. In addition to the readjustment investment portion in the current plan, it is also necessary to consider supplying even more investment resources to agriculture, and gradually increasing the proportion of state investment in agriculture. When the state is readjusting the investment structure it should emphasize consideration of industries with agricultural input, rural transportation and communication, and the establishment of country trade fair markets. At the same time as state and local governments are increasing inputs to agriculture, at a policy level it is necessary to encourage collectives and peasant households to increase inputs to agriculture, and fully give play to cooperative economic organization in this function. In particular, advantage should be taken of the favorable conditions offered by the current relative abundance of rural labor power, and the low labor rates, to mobilize and organize peasants to work energetically to accumulate services, and strengthen the construction of the agricultural base, consolidating reserve strength for agricultural development.

#### Cooperative Funds Play New Role in Rural Banking

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[Article by Song Hongyuan (1345 3163 6678): "Development, Achievements, and Problems of Rural Cooperative Funds"]

#### [Text] I. Birth of the Rural Cooperation Fund and the Creation of a Reform Experiment

1) The emergence of the rural cooperative fund in China resulted from rural economic reform and the development of the commodity economy. It is a product of the reform of the rural banking system and investment mechanism.

Since 1978, we have achieved remarkable success in rural reform, including substantial progress in the rural commodity economy. China's countryside has entered a new historical era. In this process of change, what has been most noteworthy is the commercialization and monetarization of the rural economy and new changes in the rural money supply. On the one hand, as the establishment of the household responsibility system of linking remuneration to output gave way to the adjustment of the rural industrial structure as the focus of reform, the commercialization and monetarization of the rural economy also became less concerned with quantitative expansion and more with the deepening of functions. On the other hand, as money is used more and more extensively and in an ever-widening area in the countryside, the structure of the money supply in the countryside has inevitably changed. From the beginning, China's rural financial institutions have had difficulty adjusting to these changes in rural economic life. It was against this backdrop that the rural cooperative fund emerged in response to the needs of the times.

Since 1979 the government has taken a string of important steps to reform China's rural banking system and investment mechanism. On the one hand, it has commercialized the Agricultural Bank, turned rural credit unions into cooperatives, and standardized private credit to raise the rate of inter-bank short-term borrowing in the nation's economy. On the other hand, to meet the needs of the diversification of rural short-term lending and investment, it has reformed the regulatory system for rural banking, mainly by abolishing rural-urban distinctions in the area of operations of all specialized banks, lifting specialization controls on the different industrial sectors, liberalizing restrictions on the examination and approval of proposals to set up nonbank financial institutions, and easing controls on the short-term capital market. These reform measures have certainly made possible the creation of rural non-financial institutions and the development of the financial market, including the birth of rural cooperative funds.

2) The experiment in rural cooperative funds is a useful experiment undertaken in agricultural reform experimental zones to find a solution to existing problems in the management and use of rural funds and continue the reform of the rural financial system and the investment mechanism.

After the formation in the countryside of a dual-level operating system combining unification with separation and based on the household responsibility system of linking remuneration to output, a number of deep-seated problems has emerged. First, egalitarianism and the indiscriminate transfer of funds effected through administrative means has become a problem to various extents in the handling of existing collective funds in many places. A large amount of collective funds has been misappropriated and squandered away by a handful of rural grassroots cadres and commune members. Second, the mismanagement and misuse of collective funds has

caused the peasants in some places to refuse to pay contract fees and collectively retained funds. Third, owing to the confusion in collective financial management, a large amount of funds has been lost and funds are scattered. Some units remain behind in payment for long periods, slowing down fund circulation and preventing collective funds from appreciating in value. The result is a kind of fund management with no consideration for returns. The experiment in rural cooperative funds is designed to solve these problems.

The reform philosophy of commercializing the Agricultural Bank, turning rural credit unions into cooperatives, and standardizing private credit, which came about following the establishment of a basic framework for the rural financial system in 1983, also ran into problems as efforts were made to transform the internal operating mechanism and increase overall efficiency. First of all, these specific choices made on the basis of fully affirming the rationality of the existing rural financial system are suited to the requirements of rural economic reform and the development of the commodity economy. They cannot satisfy the demand for a diversified range of services from rural banking institutions, a demand generated by the development of the nonagricultural sector. Nor can they meet the demand for credit services aimed at protecting agriculture, which results from changes in agricultural production. Second, there is a conflict between the system formed under the old order and the reform philosophy that came about in the new era. The post-reform rural financial system makes full use of the forms of rural financial organizations under the old system. No new organs have been created. This kind of business expansion and institutional improvement that is confined to within the old banking system cannot rise above the vertical fund distribution system and meet the needs of the horizontal circulation of rural funds. As long as the goals of the commercialization of the Agricultural Bank, the transformation of rural credit unions into cooperatives, and the standardization of private credit are not achieved, the overall efficiency of rural banking cannot be improved. The experiment in rural cooperative funds is a piece of advanced exploration aimed at guiding and expediting reform overall.

## II. The Focus of the Experiment in Rural Cooperative Funds and an Assessment of Its Development

### 1) Basic focus of the experiment with rural cooperative funds

The goal and mission of the experiment with the rural cooperative fund is to establish new short-term borrowing and investment mechanism by first conducting well-organized and carefully planned reform experiments in some areas, thereby aiding the drive by the central and local governments to formulate policies, rules, and regulations pertinent to rural cooperative funds by providing them with systematic information and a scientific basis.

The experiment with rural cooperative funds started out with newly-created rural financial institutions and bypassed for the moment the two problems facing the commercialization of the Agricultural Bank, the transformation of rural credit unions into cooperatives, and the standardization of private credit. By establishing new institutions to take up some functions and easing the difficulty of reforming existing financial institutions, the experiment has reduced the problems to a manageable size, dispersed risks, accumulated experience, and guided and expedited reform overall.

The reform plan embodies the principle of being advanced and innovative. In a departure from the past when only the state Agricultural Bank and rural credit unions were allowed to accept deposits and make loans, rural cooperative funds are authorized to do the same. Breaking with the past when macroeconomic regulatory and control tools were used by the state in credit management, rural cooperative funds are authorized to decide how funds should be spent in accordance with the local industrial policy. Instead of a financial system consisting solely of public institutions or private institutions, now we have a shareholding cooperative economic model consisting of both public and private organizations.

The distribution of reform experimental points embodies the principle of combining an emphasis on experimentation with gradual dissemination across the board. First of all, in accordance with the basic principles of leaving property rights unchanged, voluntary participation, mutual benefit, democratic management, payment in return for use, and equal stress on returns, organizations were set up and a membership system instituted. Second, all social funds available for pooling should be pooled. Practice unified management. Collect user fees. Plow profits back into cooperative funds. Third, formulate regulations and methods to create and improve internal democratic supervision and a system of personal responsibility and other rules governing the investment and re-investment of funds, distribution of returns, accounting, and auditing.

## 2) Progress in implementing the experiment with rural cooperative funds

All experimental zones involved in the project have made varying amounts of progress in organizing cooperative funds and formulating a range of internal rules and regulations. Both Guanghan and Shangzhi experimental zones have put together a network of rural cooperative funds, each headed by the joint municipal fund, linked together by township and town funds, and based on village cooperative funds. Other places including Yutian, Pingdu, and Yulin also have set up cooperative funds. All cooperation funds have been accepting deposits and making loans, at the same time writing a host of rules and regulations. Shangzhi and Yutian have been acting as an agent for the state insurance company in its dealings with peasant households. The joint municipal fund in Shangzhi serves as the intermediate organization

in the experimental zone for making loans financed by funds borrowed from the World Bank, a role it has been performing well since it opened for business in 1989. Guanghan and Heping have taken pains to implement all rules and regulations, training the directors, accountants, and tellers of the village and township funds, and auditing the various funds in order of priority. All five township funds that have been audited are doing well in terms of fund circulation.

The experiment with rural cooperative funds in Shangzhi, Yutian, Pingdu, and Yulin has also achieved substantial progress. The funds have begun making short-term loans, accepting deposits, and extending credit. They have formulated a host of rules and regulations. In the Shangzhi and Yutian experimental zones, the funds have been acting as an insurance agent for the state insurance company in its dealings with peasant households. Moreover, the peasants' cooperative fund in Shangzhi serves as the intermediate financial organization in the Shangzhi experimental zone in making loans using policy-based loans from the World Bank, a responsibility it has discharged with satisfaction since 1989.

In Huanghua and Shenwei, fishermen's cooperative funds have been set up and are now operating regularly. Sanming, Huaihua, and Weihe have set up a forestry cooperative fund one after another. In Sanming, the forestry cooperative fund has made considerable headway in making short-term loans and investment and in drawing up all kinds of rules and regulations. So have the land development financial company in Meitan and the township enterprises and financial service cooperative in Fuyang in setting up the organizations, making short-term loans and using such loans, accumulating funds, and developing a body of rules and regulations.

Since experimental zones were created in 1987 to carry out the experiment, 12 places in 21 experimental zones have initiated pilot projects thus far. The pilot projects can be found in agriculture, forestry, fishery, and township and town enterprises. Generally speaking, the experiments cover the various aspects of the reform of rural short-term lending and the rural investment mechanism.

## 3) The development of rural cooperative funds nationwide

Since their birth, rural cooperative funds have developed steadily amid difficult circumstances. Their history of development since 1984 can generally be divided into three stages. The years from 1984 to 1986 constituted the stage of grassroots spontaneity characterized essentially by many departures from past practices. They were able to develop despite control by the banking system. The years between 1987 and 1988 made up the stage of rapid expansion, characterized mainly by support from the central and local governments and endorsement by the authorities involved. Spontaneous grassroots actions gave way to organized reform and experiments, which were subsequently introduced and popularized across



the nation. The years from 1989 to 1991 constituted a period of steady growth, characterized primarily by the three year rectification drive in the national economy, the relative steady development of rural cooperative funds, and the continuous increase in the amount of internal short-term loans and investment. Today rural cooperative funds have entered a new development phase at a higher level.

Guided by state policies and the exemplary role of rural reform experimental zones since 1987, rural cooperative funds have made significant progress nationwide. As of late 1991, 18,000 townships across the country, or 33 percent of all Chinese townships, had set up a rural cooperative fund and 120,000 villages, 16 percent of all villages, had put together a cooperative fund. Funds pooled by year end rose from 5.66 billion yuan in 1988 to 9.99 billion yuan in 1991, or 20.1 percent annually on the average. Funds invested during the year rose from 6.71 billion yuan in 1989 to 10.17 billion yuan in 1991, or 23.2 percent per year on the average. The amount of funds raised and invested has been rising continuously. In 1991, funds raised went up 2.06 billion yuan over the preceding year while funds invested grew 2.41 billion yuan. Estimates are that the amount of funds pooled and raised nationwide will reach 12 to 13 billion yuan by the end of 1992.

### III. Achievements and Problems of Rural Cooperative Funds

#### 1) Achievements of the experiment with rural cooperative funds

The experiment with rural cooperative funds has made remarkable progress in recent years. Across the nation the development of rural cooperative funds has been notably successful and played an important role in expediting development and reform.

First of all, they have increased farm incomes and spurred the development of agricultural production. In experimental zones and numerous places across the nation, rural cooperative funds make agriculture their investment priority, giving it preferential treatment and offering it favorable interest rates. In 20 percent of the villages in the Shangzhi experimental zone, agricultural funds now come solely from rural cooperative funds. Nationwide rural cooperative funds invested 3.2 billion yuan and 4.13 billion yuan in agriculture in 1990 and 1991, respectively, the latter amount already equivalent to two times the central government's spending on local agriculture.

Second, it has eased the shortage of rural funds and aided the development of township and town enterprises. By filling the gaps left by banks and credit unions, rural cooperative funds have become an important force on the rural funds market. In townships and towns in Yulinshi with cooperative funds, enterprise output rose 14.1 percent and 16.4 percent in 1989 and 1990, respectively, 4.6 and 3.6 percentage points higher than the city's average in the same period. Nationwide, rural

agricultural funds provided township and town enterprises with 3.48 billion yuan and 4.5 billion yuan in funds in 1990 and 1991, respectively, 45.1 and 45.3 percent of the total.

Third, rural cooperative funds have supported the production and operations of peasant households and increased peasants' earnings. Nationwide rural cooperative funds enriched peasant households by 2.75 billion and 3.82 billion yuan in 1990 and 1991, 35.4 percent and 37.5 percent of total investment. Besides boosting peasants' earnings by developing production, rural cooperative funds also enrich them by paying dividends to peasant households who have joined a fund as its owners. In some places in Hebei and Jilin, peasant households are paid 15 yuan in dividends per capita each year.

Fourth, they have nurtured the rural funds market and checked private high-interest borrowing. In the past a dozen people were making loans at abnormally high interest rates in Yulin township, which put a number of self-employed individuals in industry and commerce in dire straits. The cooperative fund in the village has so far helped solve the fund difficulties of over 100 households and effectively checked usury. According to studies on some localities, the interest rates charged by private lenders fell 30 to 50 percent after a rural cooperative fund began making short-term loans.

Fifth, they have spurred the development of socialized services in the countryside and provided an array of services to peasant households. Nationwide rural cooperative funds spent 530 million yuan and 680 million yuan on socialized service organizations in 1990 and 1991, respectively, thereby providing a material basis for the establishment and perfection of a rural socialized service system. The rural cooperative funds in many places not only provide peasant households with funds, but also assist them in selecting projects, provide them with information, and guide their operations.

Sixth, they have strengthened and improved the management and use of collective funds and beefed up the collective economic muscle. Many locales have accelerated the collection of loans outside the collective and increased the value of collective funds while avoiding losses. Nationwide 1.25 billion yuan in collective loans were recovered through cooperative funds in 1990 and 1991 and collective economic organizations increased the value of their funds by almost 300 million yuan.

Seventh, rural cooperative funds have replaced administrative tools with economic tools and substituted fiscal means with financial means in the management and use of rural funds, spurring the reform of the rural banking system and investment mechanism. Rural cooperative funds admit shareholders as members and pay dividends to them based on the value of their share holdings. That way they have expedited the development of the shareholding cooperative economy.

## 2) Problems in the development of rural cooperative funds

The development of rural cooperative funds has become an irreversible trend in China. As they become accepted and are given attention, support, and encouragement by all quarters at the same time benefiting from the results of pilot projects, they will develop at an accelerated pace in the future. This is how rural cooperative funds will develop in the 1990s. There will be a diversification of the forms that rural cooperative funds will take. The scale and scope of short-term lending by the funds will grow. There will be high-level cooperation among rural cooperative funds. They will move toward integration, standardization, and institutionalization.

To further spur the healthy development of rural cooperative funds in the new era, we must take the problems in their development seriously today:

First of all, there are still problems relating to the understanding of rural cooperative funds. One, in places where the collective economy is weak and the economy underdeveloped, the scale of collective accumulation is believed to be tiny and private idle funds highly limited and that short-term lending has little significance one way or the other. In places with a strong collective economy and a highly developed economy, the demand for funds is believed to be so strong that foreign funds are required to meet the demand. It is therefore assumed that internal short-term lending will have only a minor role. Second, some people in the financial circles believe that short-term lending is an illegal activity that goes against the national financial policy. Yet others think that rural credit unions are in the process of recovering their three qualities, so there is no need to create new financial institutions to make short-term loans.

Second, there are these problems in the operations of rural cooperative funds. First unjustifiable administrative interference remains excessive in some places. There is insufficient harmony between rural cooperative funds, on the one hand, and local finance agencies, banks, and credit unions, on the other. Rural cooperative funds still do not receive sufficient support from those sectors for their development. Second, in some locales rural cooperative funds make short-term loans on a very small scale and fail to tap the potential of funds fully. The various internal rules and regulations are less than comprehensive and the quality of their personnel is relatively poor. Third, the rural cooperative fund has no exchequer and lacks the essential account-settlement tools. The Agricultural Bank has imposed excessive loan guarantee requirements on rural cooperative funds, causing funds to be invested improperly and an exceptionally high percentage of funds to be tied up.

Third, rural cooperative funds face these problems in their development. For one thing, rural cooperative funds still lack uniformity so far. That is, they are not standardized or institutionalized enough, making it hard to create a unified system. Moreover, there are still no

clear and effective policy encouragement and legal protection for their development. As a result, they still encounter some problems in their actual operations which are not amenable to solution. Any effort to expand the scope of short-term lending and other services is still hampered by the current policy.

## IV. Basic Understanding of Rural Cooperative Funds and Proposals for Promoting Their Development

### 1) Understanding and assessing rural cooperative funds

These are the lessons we have learned from the experiment with rural cooperative funds over the past few years. Respecting the peasants' wishes and adhering to the principles of organizing a fund are prerequisites for running a cooperative fund well. Creating and perfecting all sorts of rules and regulations is essential to the healthy development of rural cooperative funds. Clarifying their goal of serving agriculture, the countryside, and the peasants is the very basis of the survival of rural cooperative funds. Creating and perfecting a unified system is an important way to enhance the overall efficiency of rural cooperative funds.

To begin with, let us analyze the functions and efficiency of rural cooperative funds. In a microeconomic sense, the rural cooperation fund is a highly efficient means of making short-term loans and has a substantial accumulation capability. Since rural cooperative funds are distributed all over the countryside, they are close to the peasants, enabling the latter to take out short-term loans anytime. Moreover, each rural cooperative fund can choose the methods of making short-term loans acceptable to it and adopt a host of simple and convenient ways of making short-term loans to simplify processing as much as possible. All this speeds up the supply and demand of their funds and renders short-term lending timely. In a rural cooperative fund, indirect short-term lending co-exists with direct short-term lending, and short-term lending with long-term lending. Exempt from stringent regulations delineating the scope of operations, rural cooperative funds have more flexibility in short-term lending. They can adjust interest rates more readily. They are in a better position to fully tap into all sorts of funds within their local community or within the cooperative economic system. In a macroeconomic sense, rural cooperative funds operate within the limits of a local community or cooperative economic organization. They have limited access to market information. The circulation of funds among regions or outside the organization is often hampered, preventing the optimal allocation of funds on an even larger scale. The distribution of funds brought about by a rural cooperative fund may conflict with the goals of a national policy. The circulation of a large amount of funds outside the system, in particular, may cause the funds to be frittered away and dilute state control over funds. Since the contractual relations of a fund are not developed enough, since various internal rules and regulations have yet to be worked out, and since the pertinent external management system is not yet sound or comprehensive, the risks

of taking out a short-term loan are magnified. The duality of the functions of a rural cooperative fund and its efficiency suggest that its future development includes both difficulty and hope.

Next, let us assess the place and role of rural cooperative funds. Given the problems in the operations of rural cooperative funds, people are justifiably worried about their future. The rural cooperative funds that have appeared in some places in the last couple of years were actually put together by the local township governments eager to get around the credit limits imposed by the Agricultural Bank and credit unions. In these rural cooperative funds, the director is usually the township chief or the head of the agricultural operating station and administrative means are used to remove deposits from the credit union and attract idle funds in peasants' hands. Even as the Agricultural Bank and credit unions rack their brains to come up with the funds needed to ensure the procurement of agricultural byproducts and agricultural production, these rural cooperative funds "take away the firewood from under the cauldron" by depriving society of its funds. This anomaly in the cooperative fund experiment has severely hurt the funds' reputation. It would be equally inconsistent with objective realities for us to abolish rural cooperative funds or curb their development so as to preserve the standing of the Agricultural Bank and credit unions as the main players in rural banking. First, the Agricultural Bank and credit unions have only so many service outlets and are not flexible in their operations and management. They cannot meet the diverse short-term borrowing and investment needs in the countryside. Second, rural cooperative funds have been integrated into the economic life of the countryside and constitute the source of a considerable portion of the funds of township and town enterprises. The further development of township and town enterprises depends on rural cooperative funds. Third, there are limited financial assets in the countryside at present and peasants' earnings are set to keep rising. If no rural cooperative funds exist to absorb part of such earnings, it will stimulate nonproductive consumption by peasants and their in-kind accumulation. We can thus see that it is inappropriate either to accept or to reject their place and functions simplistically. The key is to create the right conditions to enable them to fulfill their proper role in rural banking.

## 2) Proposals for promoting the healthy development of rural cooperative funds

To continue the reform experiment with rural cooperative funds and promote their healthy development, we must begin by correcting our understanding of rural cooperative funds, clarifying their legal position, analyzing their functions and effectiveness scientifically, assessing their place and role objectively, and affirming them as an important part of the rural banking system. Correctly handle the relations between rural cooperative funds and the existing financial institutions and related sectors in the countryside so that they can spur one another and develop together as they compete. Adjust

the philosophy and goals of current reforms relating to the Agricultural Bank and credit unions. Focus on the creation of new mechanisms while improving the efficiency of existing rural financial institutions to meet the needs of rural economic development and structural transformation.

Next we must cut back on unnecessary administrative interference, having first achieved a unified understanding, and abide by the basic principles of operating rural cooperative funds. Allow experiments that break with existing policies. Broaden the scale and scope of short-term lending. Enhance the ability of rural cooperative funds to make short-term loans. Improve the quality of the army of rural cooperative fund workers. Formulate a range of internal systems, rules, and regulations as well as an external management system to standardize and institutionalize them over time.

The most important policy one can devise to continue the reform experiment in rural cooperative funds and promote the healthy development of rural cooperative funds is one that would create a sound economic and fiscal climate, establish clear and effective policies and laws to support such funds, intensify the construction of a system of rural cooperative funds, and elevate them to a higher level.

First, we may take a two-pronged approach to create a sound and harmonious economic and financial climate for rural cooperative funds. On the one hand, we need to prevent the economy from overheating and expanding excessively and must maintain social commodity prices at a steady level to keep fund circulation and the money supply in the countryside in a stable and balanced state. On the other hand, we need to analyze in earnest the new conditions and new problems that have emerged in the transformation of the rural structure. In particular, we must take pains to study the trends of movement of credit funds in the countryside as well as the characteristics and laws of changes in the money supply. We must improve the macroeconomic financial regulatory system so that it operates at different levels and can make distinctions on a case-by-case basis.

Second, we may also take a two-pronged approach to create a good and harmonious policy and legal environment. On the one hand, with decisions and documents from the CPC Central Committee and State Council clearly affirming and encouraging rural cooperative funds, the appropriate departments in charge and the national financial agencies may work out a development plan to specify the appropriate policy in support of such funds. On the other hand, economic law-making bodies must formulate the appropriate basic legislation to be applied nationally. Next the departments in charge should draw up detailed regulations of implementation based on the national legislation. This would give the development of rural cooperative funds clear and effective legal protection.



Third, the following points must be made clear in the drive to build up the system of rural cooperative funds. To begin with, it must be made clear that the development of rural cooperative funds has become the starting point of organizational construction. Guiding the development of rural cooperative funds in the direction of organizational construction is innovative in organizational terms. The acceleration of organizational construction should be an essential part of the search for new short-term lending and investment mechanisms. Second, provide rural cooperative funds with effective credit guaranty without having the government and state banks assume their operational risks and any liability for their bankruptcy. Preserve their privately-run nature and avoid intensifying their official character as a result of organizational construction. Guide and supervise organizational construction with effective economic tools instead of administrative means. This will help the appropriate agencies apply indirect management and effective supervision. Third, by establishing a rural cooperative credit guaranty fund, gradually create a credit guaranty mechanism to consolidate them and apply toward them the mechanism of system operations and indirect management, and achieve the goals of rural cooperative fund construction.

#### **Commentary Warns of Falling Guangdong Grain Output**

HK1602035293 Guangzhou Guangdong People's Radio Network in Mandarin 1000 GMT 10 Feb 93

[Commentary: "Latent Crisis in Guangdong's Agriculture"]

[Text] Since reform and opening up, Guangdong's agriculture has developed considerably and grain production has entered a new stage, offering a material guarantee for the lifting of grain price restrictions in Guangdong and the rest of China. However, we must soberly see that, as far as Guangdong is concerned, the problem of grain production has not been radically resolved. Since last year in particular, some places in Guangdong have tended to relax their efforts in grain production. The problem of the arbitrary occupation and misuse of farmland is serious. Land for agricultural and grain production purposes has fallen considerably. Moreover, civil engineering projects [words indistinct] have weakened agriculture and the peasants' incentive to grow grain has decreased, leading to a big decrease in grain output in Guangdong. According to statistics from agricultural departments, sown areas of grain and paddy in Guangdong last year fell for the first time to the lowest level since the PRC was founded, representing respective decreases of 338,000 mu and 279,000 mu from the previous year. Total output of grain and paddy decreased by 720,000 tonnes and 540,000 tonnes respectively from the previous year. Judging from this year's situation, it is certain that areas sown with grain in various cities keep decreasing considerably. According to preliminary statistics, the area of grain and hybrid paddy will decrease by 3.75 million mu and 3 million mu respectively from

last year, and the area of medium quality earth will increase [as heard] by 6 million mu. It is estimated that grain output will thus decrease by 1.7 million tonnes. This figure shows that Guangdong's basic grain output [words indistinct] will be less than 35 billion jin. In other words, the per-capita volume of unprocessed grain will be less than 500 jin. This is a dangerous sign. Guangdong is a vast province which lacks grain and needs to import grain from other provinces and abroad every year. At a time when all parts of the country are vigorously readjusting their crop structure, it is particularly important to pay good attention to grain production in Guangdong. Therefore, all localities should first enhance understanding of the fundamental role of grain production, continue to strengthen the leadership of agriculture and grain production, and ensure that agriculture and grain production increase steadily and in a sustained way. Only by doing so can Guangdong's economy develop steadily. Second, it is necessary to protect and support grain production by means of policy, increase input in counties that are cash crop bases, strictly control the use of nonagricultural sites, establish permanent farming reserves, and set up high-quality, high-yield, and high-efficiency [words indistinct] farmland. Moreover, it is necessary to stabilize and strengthen agricultural technology promotion teams. Only by making great efforts and conscientiously creating favorable conditions for fundamental agriculture and grain production can we prevent agriculture, especially grain production, from plummeting.

#### **Commentary Urges Peasants To Increase Cotton Output**

SK1702092493 Jinan Shandong People's Radio Network in Mandarin 2300 GMT 16 Feb 93

[Commentary by reporters (Qiao Renzhen) and (Wu Haiping): "Make a Correct Appraisal of Markets and Plant Cotton"]

[Text] The people from higher levels downward across the province made a few comments on the cotton production of this year. Last year, some peasants' income was reduced due to the reduction in cotton production. So, this year, some of them plan to reduce the cotton growing areas, some simply refuse to plant cotton, and some remain undecided and adopt a wait-and-see attitude. At the same time, some leaders at various levels have no ideas and find it difficult to make a decision and some are full of worries and do not have full confidence. With worries, the cotton management and processing enterprises adopt different measures. The matter of cotton production affects the people of various circles in society. In that way, what we should do for this year's cotton production. Will we increase or reduce the cotton growing areas?

Last year, the province was hit by the serious drought and insect pests. The total cotton production was less than 14 million dan, nearly 50 percent less than the figure of 1991; and the per unit area yield only reached 33.4 kg, the lowest figure since 1980. Due to the decrease in cotton production, the province's total agricultural output value was reduced by more than 5 billion yuan

and the per capita income of the cotton growers was reduced by 144.4 yuan. The output value of the cotton processing enterprises and the textile industrial enterprises was reduced by more than 4.8 billion yuan. The local revenues were reduced by more than 110 million yuan. All this affected the fulfillment of the export task and the rural deposit target as well as the urban and rural markets and also brought about serious influence over the rural economy and the overall national economic development of the province.

As everyone knows, Shandong is a large province in terms of the cotton production. Its cotton growing areas account for 20 percent of the country's total, its cotton production accounts for 25 percent of the country's total, the volume of cotton distributed to other provinces accounts for 40 percent of the country's total, and the cotton export volume accounts for 20 percent of the country's total. Simultaneously, Shandong is also a large province in terms of cotton consumption. Wang Jiangong, vice governor of the provincial government, once said: There are 6,000,000 shuttle spindles in the province. So, the province's annual cotton consumption reaches 11 million dan. With the state-assigned tasks for distributing to other places, exporting to foreign countries, military needs, and civilian use, the province should produce, at least, 20,600,000 dan of cotton every year in order to meet the demands. So, this year, the province plans to produce 24 million dan of cotton and urges to plant 20 million mu of cotton. But a survey on the peasants' intention for cotton planting showed that so far, only 16 million mu of cotton have been planted and we still have to plant 4 million mu of cotton. Can we purchase cotton from other provinces or foreign countries if we do not plant 4 million mu of cotton and the cotton production does not reach 24 million dan? First of all, Shandong's cotton production is more than that of other provinces and other provinces also reduced their production last year. They usually purchased cotton from Shandong. It is impossible for them to distribute cotton to Shandong. We do not have so much foreign exchange to import cotton from foreign countries. Simultaneously, there is no so much cotton on the international market. The ports do not have the bearing capacity for distribution of cotton. So, we should only rely on ourselves to solve the difficulties in lacking cotton. The only method is to plant sufficient cotton and increase cotton production. In reality, Shandong has advantages in cotton production. If the cotton growing areas do not plant cotton, they will not be able to find a cash crop like cotton that can be planted on a large scale or to increase their income by a big margin. Particularly, after the markets were decontrolled, the state defined cotton protective prices and also expanded the production and supply of high-efficient farm chemicals, including (mianlingbao). The cotton prices on the international market rose recently. The overall cotton markets at home and abroad are good. So, the broad masses of cotton growers should grasp the favorable opportunities to plant full amounts of cotton.

### Xinjiang Official on Developing Farm Markets

OW1202005493 Beijing XINHUA Domestic Service  
in Chinese 0147 GMT 6 Feb 93

[By reporter Wang Boyu (3769 0130 3842)]

[Text] Urumqi, 6 Feb (XINHUA)—Yusufu Muhanmode, vice chairman of the Xinjiang Autonomous Regional People's Government, pointed out in a recent interview with reporters that with peasants' entering the market, governments at all levels must adopt appropriate measures to improve service networks and help peasants adapt themselves to market rules as soon as possible.

Xinjiang's agricultural output has increased for 15 consecutive years; however, because of its vast area, limited market, underdeveloped circulation system, and other constraints, large quantities of farm and sideline products have often been kept too long in stock. As a result, peasants' income has not risen as fast as it should, and in some areas, there has been no increase at all. In light of this situation, beginning this year, Xinjiang will no longer issue mandatory cultivation targets for farm crops and will allow peasants to decide for themselves the acreage and types of crops they will plant. At the same time, it allows peasants to sell farm and sideline products without restrictions, thereby pushing them to the marketplace.

Yusufu Muhanmode said: Once the peasants come out of the government's "protective umbrella" and begin to take market risks, many of them will have difficulty adjusting right away; they need government assistance and guidance. He said: The government should strengthen microeconomic control and regulation: 1) It should establish information and consultant service entities to provide peasants with information regarding market demands to enable them to plan production based on market information. 2) It should mobilize grain, food, sugar manufacturing, and supply and marketing departments to go to the countryside to meet directly with suppliers and sign sales contracts with them. This will ensure the sale of farm and sideline products. 3) It should encourage agricultural service departments to organize themselves into economic entities that will concentrate on agricultural products while undertaking other diversified businesses to expand farm and sidelines product markets and provide better post-production service for peasants.

Yusufu Muhanmode said: In the past, Xinjiang did not have a fixed place to exchange grain and edible oils. The autonomous region has come up with a preliminary plan to establish a grain and edible oil commodity circulation network in northern and southern Xinjiang. The network will be structured with primary markets as its foundation, regional wholesale markets as its main support, and a provincial-level wholesale market as its lead. The provincial-level wholesale market for grain and edible oils began operation in Urumqi on New Year's Eve. In addition to the commodity circulation network,

Xinjiang has also actively explored the domestic market and markets in neighboring countries in order to sell more farm and sideline products to the interior and overseas.

He said: Xinjiang will drastically readjust its crop structure to develop a type of farming that provides high

yields of fine quality, readily salable crops with maximum efficiency. Xinjiang is well known for being the "home of fruits." All prefectures, autonomous prefecture, counties, and cities should make full use of their favorable conditions to develop agriculture with strong local characteristics. They should produce brand-name, special, and rare products and carry out intensive processing to increase their values.



### **New University Military Training Form Introduced**

*HK2002073893 Beijing GUANGMING RIBAO  
in Chinese 7 Feb 93 p 2*

[Report by staff reporter Deng Haiyun (6772 3189 0061): "Beijing University of Science and Engineering, Other Universities Innovate Forms of Military Training"]

[Text] Closely coordinating with the Artillery Command Academy and National Defense University, the Beijing University of Science and Engineering has boldly reformed and innovated the form of military training according to the requirement of bringing up people, and collectively created useful experience of a "two-way approach for cultivating people." After use for two years, excellent results have been achieved and the university has been commended several times by the State Education Commission and Beijing Municipality.

Previously, military training conducted by Army units for local universities and colleges was regarded as an obligation of the troops, and was generally a passive action. The officers who trained students in the schools were temporarily transferred and organized after they were assigned the duties. That was why the training standards and requirement criteria were not entirely the same, which affected the training quality to a certain extent. Starting in 1991, the Artillery Command Academy changed the traditional form and sent a student team of a whole organization to conduct military training in schools. These students were training officers and students of military academies concurrently. They were of similar ages and experiences to the students in local universities and colleges, which was conducive to mutual emulation and exchange. Through military training, the military academy students not only fulfilled a duty, but also gained a good opportunity to get into contact and become acquainted with society so that they could carry out a "live combat" test of the knowledge which they had studied. By so doing, military training changed from a one-way to a two-way approach for cultivating people, was beneficial to two parties instead of one party, and became a good form of both nurturing themselves while nurturing others. Many students said this is an exercise of leading troops before they are assigned jobs.

In the meantime, the Beijing University of Science and Engineering carried out reform in the training form. Before 1990 its students generally received military training in the barracks of Army units. Although a

certain achievement was attained, there were problems of high expenditure, relatively poor results, excessive burdens on troops, and so on. Since 1990, the university has changed this practice and concentrated its efforts on organizing students for military training on the campus. This reform has retained the advantages of training in the barracks and overcome the existing shortcomings. Particularly, it exploited the prominent role in conducting a comprehensive management and omnidirectional cultivation of the students, expanding the social impact of military training, economizing expenditure, and others. The practice of intramural military training for three years shows that the students' quality in politics, military affairs, mentality, and physique have been remarkably enhanced, and the study style, school atmosphere, and building of a civilized campus have also been intensified. Additionally, the Beijing University of Science and Engineering coordinated with National Defense University to conduct a concentrated military theoretical course in two weeks, which was formerly distributed in an academic year, thereby arousing the students' enthusiasm and raising the examination results incrementally.

Through the reform, outstanding achievements have been scored in the military training in the Beijing University of Science and Engineering. In 1992 the university was among the country's 30 schools commended by the State Education Commission in a notice circulated nationwide.

### **Shijiazhuang Cracks Largest Arms Theft Case**

*SK1902142193 Shijiazhuang Hebei People's Radio  
Network in Mandarin 2300 GMT 18 Feb 93*

[Text] Public security organs of Shijiazhuang City recently successfully cracked the theft from the arms depot of a certain army unit stationed in Shijiazhuang. The criminal (Zhang Yanlin) was caught in Yuci City, Shanxi Province.

On the evening of 1 February, the criminal broke into the arms depot of a certain army unit stationed in Shijiazhuang and stole guns and other weapons and bullets. After this theft happened, the provincial and the Shijiazhuang city public security departments organized competent personnel to investigate. Thanks to the great cooperation of the army unit and the public security departments of Shanxi Province, the criminal (Zhang Yanlin) was caught on the evening of 13 February. All the guns and bullets the criminal had stolen were recovered the next day.

As was learned from departments concerned, this case was the largest since the founding of the country.

**Special Interview With Peng Ming-min**

93CM129A Hong Kong KAIFANG [OPEN  
MAGAZINE] in Chinese No 72, 18 Dec 92 pp 84-86

[Interview with Dr. Peng Ming-min, by staff reporter;  
place and date not given: "Reunifying China Is a Myth"]

[Text] After returning to Taiwan, Dr. Peng Ming-min, an international jurist authority, named "Godfather of Taiwan Independence" by the media, who had been wanted by the law for more than 20 years, is considered the only person able to contend with President Li Teng-hui. This magazine specially interviewed Dr. Peng in his office on Keelung Road in Taipei.

[Question] What is the special meaning of your returning to Taiwan, which you have left for 23 years, during the election of members of the Legislative Yuan?

[Peng] I left Taiwan for 23 years, and the arrest order was just canceled last year. Now that I have back, I hope once again to contribute my views and ideas to my fellow countrymen. At present, Taiwan's future is greatly debated, and I hope that I can be involved.

[Question] Is returning to Taiwan your long-term plan? Did your family come back with you?

[Peng] Yes. My son is a doctor in the United States, and he has his own job. My wife goes back and forth between the United States and Taiwan frequently.

[Question] Can you briefly tell me your political ideas?

[Peng] I do not have any new theories. Neither "reunification" nor "independence" is the real problem. The key is that in a place where the economy is highly developed with a population of 20 million, its people still do not have the right to determine their own future. It is very clear that I personally stand for Taiwan independence. However, to end the rule of outside forces cannot be accomplished overnight. It will take a considerably long time of "sterilization" and education efforts to ponder problems freely and independently after 40 years of brainwashing and dogmatic education carried out by the ruling party. In principle, I want to strive for "self-awareness" and "self-determination." How to attain this goal is a matter of technique.

[Question] People generally hold that a genuine "independent" Taiwan will be threatened by the Chinese Communist Party's armed forces. What do you think?

[Peng] I met many experts on China affairs abroad. There are also defense specialists in the U.S. Department of State, no one takes the "armed force" interpretation seriously. At present, in China, the central authorities cannot control various contradictions between the local and central governments, between the new and old generations, and between coastal and hinterland areas. Currently, delegates are sent by each province to go abroad to negotiate business and sign contracts. All they

care about is making money. If the central authorities order Fujian to dispatch troops to attack Taiwan, will they do so?

The Tiananmen incident shocked the world. They know that the same thing cannot be repeated. Moreover, the response of the world to an attack against Taiwan will surely be extremely stronger than that to the "Tiananmen incident." Therefore, I think that the desire of 1.2 billion people striving for a better life has already put a tremendous pressure on the government. It is detestable to make use of the propaganda that the Chinese Communist Party will "attack Taiwan by force" to intimidate the people in order to achieve the objectives of the rulers.

[Question] Is there any conflict of interest between Taiwan's craze for doing business on the mainland and the advocacy of "Taiwan Independence?"

[Peng] Our government's mainland policy is out of control. Basically China is a hostile country. However, the attempt to get rid of the independence of another government just for this reason will be a serious issue in the international community. One cannot discuss anything if a government is "attacked" because of hostility.

I have come to realize a potential crises in the last few years in the United States: In China, businessmen may possibly become the Chinese Communist Party's hostages and securities, or its lobbyists after being given preferential benefits. Nevertheless, Taiwan businessmen are very smart. They know that the Chinese Communist Party's regime can change at any time. They do not have permanent facilities, and put their funds in Hong Kong rather than on the mainland so that they can get away at any time. I favor Taiwan businessmen going to all parts of the world to develop, and carry out a market economy on the mainland to speed up its liberalization. Nevertheless, I am not an economist. This question is relatively complicated.

[Question] What are your impressions of Taiwan after a month?

[Peng] I am not surprised at all (smile). I have heard many things, good and bad, so I am mentally prepared. However, I think that many people still feel insecure, people feel something is wrong with government policies but do not know why.

[Question] In your eyes, what is the problem?

[Peng] This regime is basically based on legends and myths, until five years ago it was still named the only legitimate government of China. The current hypothesis is that Taiwan is part of China. I challenge the government: which China is the one you refer to? If it does not refer to China, nor Taiwan, then the China you refer to exists only in name. Is it reasonable to base a regime on an illusion? In the past, we said that "reunifying China" was a myth, whereas today we say that "one China" is a joke.

[Question] If that's the case, how do you distinguish Taiwanese from Chinese?

[Peng] Chinese refers to China's nationals. In terms of nationality, it is not justified to say that the Singaporeans are Chinese. In terms of blood relationship, Chinese are defined as "Han descendants." We can say that the United States, Australia, Singapore are countries of immigrants, and so is Taiwan. We may miss our ancestors, but that does not necessarily mean we accept their rule. Now the government deliberately confuses the cultural and political definitions, and carries out a brain-washing education from kindergarten to university so that students are able to know China's geography and history thoroughly; but how much do they know about the history of Taiwan? We only want to seek our self-identity now, and it has nothing to do with the Chinese government.

I have always emphasized that you can be proud of the Han culture, but politics is a different matter. If the Chinese government is a rational one, it should realize that there is no reason for Taiwan to reunify with China; and if Taiwan is to be reunified with another country, it is not necessarily China. Taiwan can choose a more democratic and prosperous country rather than a poor and backward one to reunify with. I once raised this question: What does China rely on to rule Taiwan? It is merely a desire to possess Taiwan. The president of Singapore, Lee Kuan Yew, mentioned two things when Singapore won independence in 1958: 1) Everyone is urged to forget where they came from. 2) Everyone should think of Singapore wholeheartedly. I think it has great reference value. The present problem in Taiwan is to confront an irrational "possession desire" of the Chinese Communist Party. If this China sentiment is not eliminated, there will be greater difficulty. This is different from enumerating past records but ignoring our ancestors.

[Question] Many people ask if you will run for the presidency?

[Peng] In the past 27 years of being wanted by the law, it was impossible for me to think about this question. Now everybody is asking the same question. So far my greatest concern is Taiwan's democracy and sovereignty. In order to achieve this goal, is there anything else that I am not willing to do? Nevertheless, I have not yet carefully thought of this question. I am willing to do anything beneficial to democracy.

[Question] What is the biggest social problem facing Taiwan at present?

[Peng] A lack of public trust in the government is one of the biggest barriers to democratization. Vote-buying in elections is the biggest destructive force in democratization. I read Taiwan news while living abroad, and I inevitably doubted if the government did not understand democracy really or falsely? The other problems are

environmental protection, which is the worst of all, the concentration of wealth in economic terms, and transportation...

[Question] What is your stand toward the Democratic Progressive Party [DPP]? Did you come back to assist the party in the election?

[Peng] I have not done anything special for anybody. Generally speaking, in order to realize democracy, building a powerful and sound opposition party is necessary. However, opposition parties in Taiwan were suppressed in the past. The DPP has not come into existence easily. Under these circumstances, the performance of DPP might not be satisfactory, and was subjected to many obstacles, but there was not much room for the party to choose. Therefore, the DPP should develop now. The Kuomintang [KMT]'s armed forces, police, legislative institute, special service, education institutes, and especially the media, are all under party control.

[Question] As far as the internal conflicts of the DPP is concerned, some people say that they expect you to come back to serve as a mediator. Is that so?

[Peng] This is an illusion. When I just arrived in the United States, I was contacted by somebody who wanted me to organize another opposition party. But in reality, it is very difficult. Once people donate money, others will approach you immediately and check your account. In fact, this time I came back under supervision. I was intercepted at night many times. My driver was beaten up, and almost killed.

[Question] When did these happen?

[Peng] I recorded all the happenings. My car was smeared with the word "FUCK," and I have a picture as evidence. My colleagues received threatening calls. My driver was beaten on 30 November at night.

[Question] Have yourself ever received direct threats?

[Peng] Not yet. No direct threats yet.

[Question] You were a classmate of President Li Teng-hui. Someone said that you came back to support him and help him win. Have you met and contacted him?

[Peng] I have not yet, and it is impossible to do so. He must avoid seeing me in order not to be accused of engaging in "Taiwan Independence." Not meeting each other is good for both of us. My criticisms of the KMT were very harsh in the past, and very disrespectful. Although I did not mention his name, as chairman of the party, he knew what I meant.

[Question] What do you think about the internal conflicts of the DPP?

[Peng] People should forget their personal disputes, which serve as the party's weakness, and disappoint



people. I often told them: think about the whole situation. To found the DPP, our elders have paid a high price. They were put in jail, killed, and tried. I hope that the DPP will gradually become more mature in the midst of arguments. In Taiwan, the opposition party has a history of only five years, whereas in the Western countries such as the United States and France, democracy has a history of several hundred years. In the early founding of the United States, there were also murders and arson cases. Democracy was a result of long-term struggle. In Taiwan, democracy is still in a transition period, and it is promising. The reason I said so is not to express satisfaction with the current state of affairs, but to mean endless hardwork.

[Question] What is your concrete plan after you came back?

[Peng] Currently I am jobless (smile). Since I came back I have been busy giving speeches. Later on I want to settle down and think about this question.

[Question] Is it possible for you to go to mainland China?

[Peng] To be honest, since the Zhou Enlai years, I have been invited to go to China, and Zhou and I had a relationship of indirect contacts. What a pity, if he were still around, the Taiwan issue would have been solved easier. If I go to China, I will discuss politics, and I am not interested in travelling at all. However, since there is nothing to talk about based on China's current attitudes and ways of thinking, it is useless to go there.

#### **Stricter Penalties for Employers of Illegal Workers**

*OW1302094693 Taipei CNA in English 0818 GMT  
13 Feb 93*

[Text] Taipei, Feb. 13 (CNA)—The Taiwan high court has directed all district courts to give strict sentences to people convicted of smuggling or employing illegal foreign and mainland Chinese workers.

High court officials said that although the police and military have heightened their vigilance by increased patrols in coastal areas, a large number of illegal workers from Mainland China and southeast Asia are still slipping through.

Illegal mainland and foreign workers have posed serious social and health problems to local society, the court officials said. The high court hopes all local courts will impose heavy penalties on individuals found guilty of hiring illegal mainland and foreign laborers.

Meanwhile, the Council of Labor Affairs (COLA) announced Friday [12 February] that Philippine citizens intending to work in Taiwan will no longer need approval from Philippine authorities when applying for ROC [Republic of China] visas.

The new rule is designed to eliminate costly delays caused by red tape in the Philippine Government, COLA officials said.

Hereafter, the officials said, Filipinos need only produce proof of employment given by their Taiwan employers when they apply for ROC visas.

The Labor Council Friday granted 100 new licenses to employment brokerage houses to recruit foreign laborers to Taiwan. The move aims to prevent existing employment agencies from monopolizing the market, the officials said.

So far, there are only 15 local companies authorized to bring in laborers from the Philippines, Malaysia, Thailand and Indonesia.

There are currently 50,000 foreign workers legally employed in Taiwan, the officials said.

The Labor Council has recently eased fines to illegal workers who are arrested. The relaxation aims to speed up the deportation of illegal foreign workers, the officials explained.

#### **Airlines Asked To Reduce MD-11 Flights**

*OW1602115593 Taipei CNA in English 0830 GMT  
16 Feb 93*

[Text] Taipei, Feb. 16 (CNA)—The Civil Aeronautics Administration (CAA) has asked China Airlines (CAL) to reduce the use of its two troubled MD-11 passenger aircraft, but stressed that it is not yet time to order their grounding. CAA Director-General Sun Chao-liang said Monday [15 February].

"The troubles the two MD-11s developed may have caused inconvenience to passengers but they have not endangered flight safety," Sun said.

The two jumbo airplanes, purchased by the CAA and then leased to the national flag-carrier late last year, developed four "surges," or unstable engine air thrusts, in the past few weeks.

McDonnell Douglas, the St. Louis-based manufacturer of the jets, had replaced the Pratt-Whitney engines once already. "Since then no surges have been reported," Sun said.

Yet the aircraft were again in the local limelight last week when engineers in a regular safety check found that the back-up electrical system of one of the MD-11s did not function properly. CAL promptly suspended the flight until the arrival of necessary spare parts from the United States, which caused the flight to be delayed for one day.

In a swift response to the incident, the consumers' foundation demanded the immediate grounding of the two MD-11s until proper measures were taken by CAL and the aircraft supplier.

Such a harsh measure is unnecessary for the moment, Sun said. McDonnell Douglas, the world's third largest commercial airplane producer, has delivered a total of 76 MD-11s to 14 airlines worldwide, he indicated.

Sun said he believed the US Federal Aviation Administration would not hesitate to order the grounding of this type of airplane should it develop trouble that may pose a threat to flight safety.

However, CAA has asked CAL to temporarily cut back on its use of the two MD-11s, a demand Sun said will remain effective until parts supplies return to normal.

CAA and CAL are studying various proposals on how to seek compensation from the two American companies for losses caused by the engine troubles, Sun added.

#### **Bank of Tokyo To Open Branch in Taipei**

*OW1302085893 Taipei CNA in English 0754 GMT  
13 Feb 93*

[Text] Taipei, Feb. 13 (CNA)—The Bank of Tokyo Friday [12 February] got the go-ahead on the opening of a branch office in Taipei, marking a breakthrough in financial ties between Taiwan and Japan.

This marks the first time a Japanese bank has set up a branch here since 1959 when the Dai-Ichi Kangyo bank was allowed in.

Officials of the Finance Ministry said that they expected to see closer links between financial institutions of the two countries.

The planned establishment of the Japanese bank branch will be conducive to the government's strategy to promote financial internationalization, they noted.

The Japanese bank, reputed for its foreign exchange operations, ranks as the world's 19th and Japan's 11th in bank assets.

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